

Agency Proposed Budget									
Budget Item	Base Budget Fiscal 2000	PL Adjustment Fiscal 2002	Base New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Adjustment Fiscal 2003	Base New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03	
FTE	81.78	0.83	2.00	84.61	0.83	2.00	84.61	84.61	
Personal Services	3,219,035	340,977	94,957	3,654,969	361,213	95,295	3,675,543	7,330,512	
Operating Expenses	1,767,512	484,462	210,298	2,462,272	(379,257)	8,303	1,396,558	3,858,830	
Equipment	6,074	0	0	6,074	0	0	6,074	12,148	
Capital Outlay	0	0	0	0	0	0	0	0	
Local Assistance	42,990	0	0	42,990	0	0	42,990	85,980	
Transfers	0	0	0	0	0	0	0	0	
Debt Service	32,050	0	0	32,050	0	0	32,050	64,100	
Total Costs	\$5,067,661	\$825,439	\$305,255	\$6,198,355	(\$18,044)	\$103,598	\$5,153,215	\$11,351,570	
General Fund	3,955,998	(116,810)	262,676	4,101,864	(169,711)	62,881	3,849,168	7,951,032	
State/Other Special	1,041,985	148,503	0	1,190,488	157,749	0	1,199,734	2,390,222	
Federal Special	28,670	793,519	42,579	864,768	(6,481)	40,717	62,906	927,674	
Capital Projects	0	0	0	0	0	0	0	0	
Proprietary	41,008	227	0	41,235	399	0	41,407	82,642	
Total Funds	\$5,067,661	\$825,439	\$305,255	\$6,198,355	(\$18,044)	\$103,598	\$5,153,215	\$11,351,570	

Agency Description

The Department of Administration provides central services for state agencies in the following areas:

- ?? accounting and financial reporting (Accounting and Management Support Program);
- ?? warrant writing (Accounting and Management Support Program);
- ?? capitol complex building maintenance and security (General Services Program);
- ?? state bonded indebtedness administration (Accounting and Management Support Program);
- ?? state treasury services (Accounting and Management Support Programs);
- ?? insurance coverage and Tort Claims Act administration (Risk Management and Tort Defense Program);
- ?? information systems development, telecommunications, and data processing (Information Systems Division);
- ?? personnel management and labor relations (State Personnel Division);
- ?? purchasing and surplus property administration (Procurement and Printing Division); and
- ?? duplicating, mail, and messenger services (Procurement and Printing Division).

The department also administers the state Long Range Building Program and state employee group benefits program. In addition, the Board of Examiners, the State Tax Appeal Board, the Appellate Defender, the Public Employees' Retirement Board, and the Teachers' Retirement Board are attached to the department for administrative purposes only.

The main table above includes only a portion of the department's total funding. Several functions are funded with proprietary funds that do not require an appropriation. These proprietary functions are discussed in the proprietary program narratives.

Supplemental Appropriation Description

The executive has included a request for the department of \$17,500 state special revenue in HB 3, the supplemental appropriations bill for consideration by the 2001 legislature. The department request is for rent expenses for the day care center in Helena.

**LFD
ISSUE**

For a discussion of the Helena day care center please refer to the LFD Issue following present law DP1, Operating Cost Changes, in the section of this report for the State Personnel Division.

Agency Discussion

Summary of Executive Budget Changes

The Executive Budget request for the 2003 biennium increases by nearly \$913,000 or 8.7 percent over the 2001 biennium. General fund decreases by nearly \$223,000 or 2.7 percent, while federal special revenue funding increases by nearly \$867,000 and state special revenue increases by nearly \$266,000. Three separate adjustments and statewide present law adjustments account for the majority of the differences between the two biennia:

- ?? An adjustment in the Accounting and Management Support Program would add \$200,000 general fund in fiscal 2002 to implement a change in accounting and financial reporting standards.
- ?? A funding switch being proposed would move funding for the vendor maintenance contract costs of the Statewide Accounting, Budgeting, and Human Resources System (SAHRS) from general fund to proprietary funding, reducing general fund by nearly \$953,000 over the biennium. This funding switch would not eliminate these expenditures, but would move the funding out of the General Appropriations Act to a non-budgeted funding source. However, agency budgets that pay the fees and charges associated with SABHRS would see increases in their budget requests to offset a portion of this funding change.
- ?? An adjustment would add \$800,000 federal special revenue for the statewide Geographic Information System (GIS) Cadastral Database project. This funding would provide contracted services to continue to automate Montana's land parcel information contained in the database.

Agency Issues

Internal Services Rates - 60-day Working Capital

Internal service funds are used to account for activities supporting the operations when goods and services are provided by one department or agency to other departments or agencies of state government or to other government entities. The legislature does not appropriate these funds. The function can increase expenses as "business" changes.

Section 17-7-123, MCA, states that fees and charges in the internal service fund type must be approved by the legislature in the general appropriations act. The Department of Administration has 15 programs or portions of programs that are funded with internal service funds. Of the 15 programs in the department funded with internal service funds, 9 are requesting that the legislature approve rates for services that would allow the programs the flexibility to maintain no more than a 60-day working capital reserve instead of approving specific fees and charges for each service. Generally, legislative approval of a 60-day working capital rate would defeat the intent of having the legislature review the financial activities of the program and approve fees and charges for the program. As such a 60-day maximum working capital rate is, in many cases, meaningless.

A 60-day maximum working capital rate does not limit fees and charges a program can assess for a particular service. A program could allow expenses to increase and could fund the increased expenses by increasing fees and charges as long as the paying entity is either willing to purchase the services at the higher rates or is required to use the services of the program. This could all be done without any impact on the working capital reserve.

Programs funded by federal special revenue for award of federal grants, cost reimbursement contracts, and other agreements are subject to the cost principles and standards of the Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." These principles and standards establish the rules governing federal reimbursement for state expenditures on federal participating projects. One requirement is that a working capital reserve as part of retained earnings in an internal service fund is limited to 60 days. This is not a firm requirement because working capital reserves exceeding 60 days may be approved in exceptional cases.

Legislative Approval of Fees and Charges

The legislature has sole authority to appropriate state funds. When the legislature exercises this power, it sets limits on how much state funds can be spent by state government during a given period. It is through legislative approval of fees and charges of internal service funds that the legislature exercises its appropriation powers for the internal service funded programs.

In addition to requiring the legislature to approve internal service fees and charges, Section 17-7-123, MCA, also states that the fees and charges in a biennium may not exceed the level approved by the legislature. Control of expenses is indirectly accomplished by setting caps on the fees and charges the entity can charge. Caps on fees and charges of an internal services funded entity control expenditures of state funds in two ways:

- ?? The caps somewhat limit and link the charges the internal service funded program can impose on other government entities to appropriations made for the paying entity in the legislative budget approval process.
- ?? Financial policies and processes limit the internal service funded program from spending more than the revenues can reasonably support. It is through this second method that the legislature controls expenditures by approving the maximum fees and charges an internal service funded program can charge other government entities.

Legislatively Approved Rates do not Set Fees and Charges

Section 17-7-123, MCA, does not require that the program apply the fees and charges at the level approved by the legislature. It only states that the fees and charges that the legislature approves are the maximum that can be charged during the biennium. The restrictions Montana law imposes on the flexibility a program has to set fees and charges for services funded with an internal service fund are: 1) fees and charges can not be higher than those approved by the legislature in the general appropriations act (Section 17-7-123(6), MCA); 2) fees and charges for services deposited in the internal service fund type must be based upon commensurate costs (Section 17-8-101(6), MCA); and 3) in certain instances, specify fees and charges in law. Owing to these restrictions, programs are generally free to set fees and charges at whatever level makes the most business sense.

Why Would the Legislature Approve a 60-day Working Capital Rate?

There are certain instances when the legislature might want to approve a rate for fees and charges that are based on a 60-day maximum working capital reserve. One instance when the legislature has determined that a 60-day working capital rate is appropriate for an internal service fund is when the program provides an unusually large volume of low cost goods or services, such as the Central Stores Program. The legislature has determined that approving maximum fees and charges for each good or service in this instance would provide accounting inefficiencies that outweigh the benefits from establishing specific maximum fees and charges.

Agency Arguments for a 60-day Working Capital Rate - Hiring and Retention Issues

The agency has provided several reasons why the legislature should approve rates based on maintaining a maximum 60-day working capital reserve instead of specific fees and charges for each good or service the program offers. One such justification is that hiring and retention issues for certain positions funded with internal service fund would impose hardships on the program to establish the level of fees and charges. Specifically, the agency has stated that high turnover and training costs for computer programming staff would impose hardships on the program that would impede its ability to accurately determine fees and charges. However, agencies that are funded with sources that the legislature appropriates in the General Appropriations Act must estimate their budget needs for the next biennium under the same human resource regulations and conditions as those funded with internal service funds.

The legislature may wish to ask the programs that are stating hiring and retention issues as justification for the legislature to approve rates based on a maximum 60-day working capital reserve why they should receive special considerations that are not afforded to programs that are funded with appropriated funds.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	Present Law Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Biennium Fiscal 00-01	Total Exec. Budget Fiscal 02-03
FTE	82.61	2.00	84.61	82.61	2.00	84.61	0.00	84.61
Personal Services	3,560,012	94,957	3,654,969	3,580,248	95,295	3,675,543	6,707,772	7,330,512
Operating Expenses	2,251,974	210,298	2,462,272	1,388,255	8,303	1,396,558	3,571,283	3,858,830
Equipment	6,074	0	6,074	6,074	0	6,074	6,074	12,148
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	42,990	0	42,990	42,990	0	42,990	89,110	85,980
Transfers	0	0	0	0	0	0	0	0
Debt Service	32,050	0	32,050	32,050	0	32,050	64,450	64,100
Total Costs	\$5,893,100	\$305,255	\$6,198,355	\$5,049,617	\$103,598	\$5,153,215	\$10,438,689	\$11,351,570
General Fund	3,839,188	262,676	4,101,864	3,786,287	62,881	3,849,168	8,173,649	7,951,032
State/Other Special	1,190,488	0	1,190,488	1,199,734	0	1,199,734	2,124,635	2,390,222
Federal Special	822,189	42,579	864,768	22,189	40,717	62,906	61,002	927,674
Capital Projects	0	0	0	0	0	0	0	0
Proprietary	41,235	0	41,235	41,407	0	41,407	79,403	82,642
Total Funds	\$5,893,100	\$305,255	\$6,198,355	\$5,049,617	\$103,598	\$5,153,215	\$10,438,689	\$11,351,570

New Proposals

The table below summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Prgm	FTE	-----Fiscal 2002-----				-----Fiscal 2003-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Public Safety Communications Program - GF										
07	1.00	62,676	0	0	62,676	1.00	62,881	0	0	62,881
DP 2 - Accounting Bureau Contracted Services										
03	0.00	200,000	0	0	200,000	0.00	0	0	0	0
DP 3 - Accounting CMIA FTE										
03	1.00	0	0	42,579	42,579	1.00	0	0	40,717	40,717
Total	2.00	\$262,676	\$0	\$42,579	\$305,255	2.00	\$62,881	\$0	\$40,717	\$103,598

Program Proposed Budget									
Budget Item	Base Budget Fiscal 2000	PL Adjustment Fiscal 2002	Base New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Adjustment Fiscal 2003	Base New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03	
FTE	20.42	0.50	1.00	21.92	0.50	1.00	21.92	21.92	
Personal Services	894,623	66,852	39,539	1,001,014	72,652	39,677	1,006,952	2,007,966	
Operating Expenses	245,883	38,396	203,040	487,319	(14,444)	1,040	232,479	719,798	
Equipment	0	0	0	0	0	0	0	0	
Local Assistance	40,231	0	0	40,231	0	0	40,231	80,462	
Total Costs	\$1,180,737	\$105,248	\$242,579	\$1,528,564	\$58,208	\$40,717	\$1,279,662	\$2,808,226	
General Fund	1,108,502	109,002	200,000	1,417,504	61,790	0	1,170,292	2,587,796	
State/Other Special	2,557	2,500	0	5,057	2,500	0	5,057	10,114	
Federal Special	28,670	(6,481)	42,579	64,768	(6,481)	40,717	62,906	127,674	
Proprietary	41,008	227	0	41,235	399	0	41,407	82,642	
Total Funds	\$1,180,737	\$105,248	\$242,579	\$1,528,564	\$58,208	\$40,717	\$1,279,662	\$2,808,226	

Program Description

The Accounting and Management Support Program consists of several units. The Director's Office is responsible for overall supervision and coordination of agency programs and administratively attached boards and agencies. The Legal Unit provides legal services to agency and administratively attached boards and agencies. The Accounting Bureau is the process owner of the financial portion of the Statewide Budgeting, Accounting, and Human Resource System (SABHRS), establishes state accounting policies and procedures, administers the federal Cash Management Improvement Act, processes warrants for all state agencies, and prepares the state Comprehensive Annual Financial Report (CAFR). The Management Support Bureau and Personnel function provide financial, budgeting, accounting, personnel, payroll, and data processing functions for the department.

Program Narrative

GASB Statement 34

One of the functions of the Accounting Bureau is to prepare the Comprehensive Annual Financial Report (CAFR) for the state. Section 17-2-110, MCA, requires that financial reports be prepared in accordance with generally accepted accounting principles so reports accurately and comprehensively present the financial activities of the reporting agencies and can be used effectively by the executive and legislative branches of state government. Generally accepted accounting principles for government entities are set by the Governmental Accounting Standards Board (GASB). When GASB makes changes to the accounting standards for government entities, it issues statements to promulgate the new standards.

In June 1999, GASB issued a new set of standards when it issued Statement 34, "Basic Financial Statements -- and Management's Discussion and Analysis - for State and Local Governments". GASB Statement 34 has an implementation schedule that would have Montana apply the requirements in financial statements for periods beginning after June 13, 2001. According to a press release by GASB, GASB Statement 34 is one of the most comprehensive standards in the history of government accounting. GASB Statement 34 makes some significant changes to the accounting standards for the state. One of the major changes GASB Statement 34 makes is that financial statements would now be required to account for capital assets, including infrastructure, on government-wide statements. Accounting for infrastructure will be a minor change for some agencies, but will be a significant change for other agencies that have large investments in infrastructure. To address the workload issues of the department and to provide accounting policy direction to other agencies, the program has included two budget requests to add resources that are directly related to the workload issues to implement GASB Statement 34 in Montana.

Funding

The Director's Office and the Accounting and Management Support Bureau are funded with general fund. The legal, warrant writing, and data processing support functions are funded with proprietary funds, which derive revenue from allocation of costs to programs and administratively attached agencies and boards. The proprietary funded portions of the division are not included in the budget table. The Treasury Unit of the Management Support Bureau receives minor funding from the Department of Commerce Investment Division proprietary account. The cost of the general services of the financial advisor is funded with state special revenue from fees charged for state-administered bond issues. The U.S. Treasury Department reimburses the state for the cost of complying with the federal Cash Management Improvement Act.

Present Law Adjustments									
-----Fiscal 2002-----					-----Fiscal 2003-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				68,123					74,013
Vacancy Savings				(26,529)					(26,704)
Inflation/Deflation				(5,769)					(5,549)
Fixed Costs				34,720					(16,335)
Total Statewide Present Law Adjustments				\$70,545					\$25,425
DP 4 - Miscellaneous Operating Increases for Accounting									
0.50	29,753	0	0	29,753	0.50	30,283	0	0	30,283
DP 6 - Financial Advisor Fees adjustment									
0.00	0	2,500	0	2,500	0.00	0	2,500	0	2,500
DP 10 - Policemen's Retirement Fund Actuarial Review									
0.00	2,450	0	0	2,450	0.00	0	0	0	0
Total Other Present Law Adjustments									
0.50	\$32,203	\$2,500	\$0	\$34,703	0.50	\$30,283	\$2,500	\$0	\$32,783
Grand Total All Present Law Adjustments				\$105,248					\$58,208

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 4 - Miscellaneous Operating Increases for Accounting - This request would fund the addition of 0.5 FTE grade 16, accountant to address workload issues associated with the recent release of GASB Statement 34. The request would also fund an increase in the allocation of costs for the proprietary funded Network Support Unit to pay for services that are provided to the portions of the Director's Office, Accounting Unit, and Management Support Unit that are funded by appropriations made by the legislature. The Director's Office, Accounting Unit, and Management Support Unit pay the proprietary funded Network Support Unit for maintenance support of computers and printers based on an allocation for each computer in the program.

DP 6 - Financial Advisor Fees adjustment - This request would fund one additional meeting of the Capital Finance Advisory Council each year. Typically, two meetings are held each year. However, only one meeting was held during the base year. Agencies that sell bonds receive updates on federal bond requirements that are presented by organizations such as the Securities Exchange Commission. The meetings also provide updates on general issues in the bond market. This request would be funded by state special revenue from fees charged for bond issues administered by the department.

DP 10 - Policemen's Retirement Fund Actuarial Review - This request would fund an increase in costs for the biennial actuarial review of the Policemen's Retirement Fund. The executive requests that the legislature designate an appropriation for this purpose as a restricted biennial appropriation.

New Proposals										
Prgm	FTE	General	-----Fiscal 2002-----			FTE	General	-----Fiscal 2003-----		
			State Special	Federal Special	Total Funds			State Special	Federal Special	Total Funds
DP 2 - Accounting Bureau Contracted Services										
03	0.00	200,000	0	0	200,000	0.00	0	0	0	0
DP 3 - Accounting CMIA FTE										
03	1.00	0	0	42,579	42,579	1.00	0	0	40,717	40,717
Total	1.00	\$200,000	\$0	\$42,579	\$242,579	1.00	\$0	\$0	\$40,717	\$40,717

New Proposals

DP 2 - Accounting Bureau Contracted Services - This request would fund contracted services to assist in implementing changes to financial reporting standards made by GASB.

LFD ISSUE The accounting standard changes of GASB Statement 34 will have two basic cost impacts for the department - one-time implementation costs and on-going maintenance costs. This request would fund contracted services to implement a major change in accounting standards, which should be classified as one-time implementation costs. Other adjustments add resources to address the on-going costs that would result once the new standards are implemented. As such, this request should be designated as a one-time-only appropriation.

DP 3 - Accounting CMIA FTE - This request would fund the addition of 1.0 FTE grade 14, management analyst and miscellaneous office expenses to provide agencies receiving \$4.0 million or more in federal funds with assistance on complying with the federal Cash Management Improvement Act (CMIA). The executive is requesting funding at market salary for this position based on difficulties recruiting personnel with the skill set needed for this position while offering entry-level salaries.

LFD COMMENT Congress passed the Cash Management Improvement Act in 1990. This federal legislation requires agreements between the United States Department of Treasury and a representative from each of the 50 states. The Department of Administration is the representative for Montana. The CMIA agreement requires states to develop draw-down schedules and check clearance patterns for programs that receive \$4.0 million or more in federal funds. These schedules attempt to create an interest-neutral situation, whereby no interest is earned on the part of either the state or the federal government as a result of the federal fund draws. These agreements have been in place since 1994.

The executive identifies workload issues as a justification for this request, stating that the Accounting Bureau has attempted to use existing staff to develop and maintain check clearance patterns and draw-down schedules and assist state agencies. However, state agencies require more help than is currently available to help them comply with this federal mandate. As a result, interest on state funds has been lost because of noncompliance with the agreement.

Proprietary Rates

Legal Services Unit (A/E 06504)

Program Description

The Legal Unit of the Director's Office advises all divisions within the department on legal matters. The unit receives the majority of its funding through the Legal Services internal service fund by charging the non-general fund divisions for services provided.

Revenues and Expenses

The Legal Services Unit devotes 1.33 FTE of their 2.0 FTE to the legal matters of non-general fund divisions and administratively attached agencies and boards. The allocation is based on a previous time study and experience during the 2001 biennium. The projected personal services and associated operating costs of the 1.33 FTE are allocated to the non-general funded entities based on the number of cases and time involvement in the cases. The Legal Services Unit bills on a semi-annual basis (in July and January), so the unit charges enough to generate a minimal cash reserve. The costs of the remaining 0.67 FTE are paid by the general fund and are included in the main budget tables. The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund number 06504 shows historical and projected revenues, expenses, fund equity, and retained earnings for the legal services internal service fund.

Report on Internal Service & Enterprise Funds, 2003 Biennium								
Fund Number 06504		Fund Name Legal Services	Agency Number 6101	Agency Name Department of Administration	Program Name			
Fund Balance Information								
	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03
Beginning Retained Earnings	(14,572)	(3,588)	(9,358)	(8,123)	(18,325)	(22,602)	(31,274)	(22,200)
Increases								
Fee Revenue	99,245	101,923	55,115	54,830	91,024	91,144	113,215	113,215
Investment Earnings	-	-	-	-	-	-	-	-
Transfers In	-	-	-	-	-	-	-	-
Miscellaneous, operating	5	-	12	75	75	-	-	-
Miscellaneous, other	-	-	-	-	-	-	-	-
Total Increases	99,250	101,923	55,127	54,905	91,099	91,144	113,215	113,215
(Decreases)								
Personal Services	78,595	98,630	46,417	58,656	88,521	90,816	93,540	96,346
Operations	8,757	9,063	5,729	6,451	8,861	9,000	10,601	10,750
Transfers Out	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	-	-	-	-	-	-
Miscellaneous, other	914	-	-	-	-	-	-	-
Total Decreases	88,266	107,693	52,146	65,107	97,382	99,816	104,141	107,096
Adjustments to Beginning Retained Earnings	-	-	(1,746)	-	2,006	-	-	-
Ending Retained Earnings	(3,588)	(9,358)	(8,123)	(18,325)	(22,602)	(31,274)	(22,200)	(16,081)
Total Contributed Capital	-	-	-	-	-	-	-	-
Total Fund Equity	(3,588)	(9,358)	(8,123)	(18,325)	(22,602)	(31,274)	(22,200)	(16,081)
Unreserved Fund Balance								
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	14,559	17,949	8,691	10,851	16,230	16,636	17,357	17,849
Fee/Rate Information for Legislative Action:								
						-----Estimated-----		
Requested Rates for Internal Service Funds						FY2002	FY2003	
Teachers' Retirement						22,643		22,673
Personnel Division						29,436		29,475
Risk Management & Tort Defense						2264		2267
General Services						7,925		7,935
Architecture & Engineering						20,379		20,406
Information Services						30,568		30,608
Totals						113,215		113,364

Rate Explanation

Table 3A shows the share of the total fund revenue each program or division is expected to pay. For purposes of legislative action on fund rates, the Legal Services Unit rates are defined as the percentage share of total revenue each program or division is expected to pay.

Table 3A Legal Services Rates	
Rate Category	2003 Biennium
Information Services Division	27%
Teachers' Retirement Division	20%
Employee Benefits Program	26%
Risk Management and Tort Defense Program	2%
Architecture and Engineering Program	18%
General Services Division	7%
Total	100%

PL5 - Network Support Unit Rates for Legal Unit - This request would fund an increase to the network support allocation to the Legal Services Unit for maintenance support of unit computers and printers. The increase for the Legal Services Unit is \$889 for the 2003 biennium.

Network Support Unit (A/E 06560)**Program Description**

The Network Support Unit administers all data processing functions of the department except those of the Information Services Division. The unit provides network support services, including installing software and hardware, responding to computer problems, and answering software questions. The unit also provides computer-programming services.

Revenues and Expenses

The unit anticipates revenues of \$165,149 in fiscal 2002 and \$168,482 in fiscal 2003. These amounts are increases of 40 percent and 43 percent over base year revenue. The unit anticipates expenses of \$159,090 in fiscal 2002 and \$159,899 in fiscal 2003. These amounts are increases of 42 percent and 43 percent over base year expenses and are mainly due to increases in salaries for information technology employees, increased data network costs, and increased programming needs. The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund number 06560 shows historical and projected revenues, expenses, fund equity, and retained earnings for the network support unit internal service fund.

Report on Internal Service & Enterprise Funds, 2003 Biennium

Fund Number	Fund Name	Agency Number	Agency Name	Program Name
06560	DP Unit Proprietary Fund	6101	Department of Administration	

Fund Balance Information

	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03
Beginning Retained Earnings	(3,546)	5,383	2,580	(1,087)	12,693	19,455	11,619	17,678
Increases								
Fee Revenue	60,468	65,673	130,693	148,998	118,220	151,502	165,149	168,482
Investment Earnings	-	-	-	-	-	-	-	-
Transfers In	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	-	123	196	-	-	-
Miscellaneous, other	-	-	-	-	-	-	-	-
Total Increases	60,468	65,673	130,693	149,121	118,416	151,502	165,149	168,482
(Decreases)								
Personal Services	45,107	54,564	107,782	125,733	91,672	121,102	133,186	133,924
Operations	6,432	13,912	21,256	24,277	19,350	38,236	25,904	25,975
Transfers Out	-	-	4,675	-	-	-	-	-
Miscellaneous, operating	-	-	-	-	-	-	-	-
Miscellaneous, other	-	-	-	-	632	-	-	-
Total Decreases	51,539	68,476	133,713	150,010	111,654	159,338	159,090	159,899
Adjustments to Beginning Retained Earnings	-	-	(647)	14,669	-	-	-	-
Ending Retained Earnings	5,383	2,580	(1,087)	12,693	19,455	11,619	17,678	26,261
Total Contributed Capital	-	-	-	-	-	-	-	-
Total Fund Equity	5,383	2,580	(1,087)	12,693	19,455	11,619	17,678	26,261
Unreserved Fund Balance								
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	8,590	11,413	21,506	25,002	18,504	26,556	26,515	26,650

Fee/Rate Information for Legislative Action

Requested Rates for Internal Service Funds

	FY96	FY97	FY98	FY99	FY00	-----Estimated-----	FY01	FY02	FY03
Support per computer	\$503	\$503	\$505	\$547	\$668	\$668	\$714		\$732
Support per server							\$1,072		\$1,098
Programming cost/per hr	\$15	\$15	\$18	\$18		To maintain 60 day working capital			

The financial objective of the Network Support Unit is to operate on a break-even basis. This unit charges other divisions in the department a fixed fee per computer to cover the costs of providing network support services, which it bills in July of each fiscal year to build up the working capital balance it requires. It charges a set fee per hour for computer programming, which it bills on an actual-hours-used basis.

Rate Explanation

The financial objective of the Network Support Unit is to operate on a break-even basis. The unit charges other divisions in the department a fixed fee per computer to cover the costs of providing network support services, which it bills in July of each fiscal year to build up the working capital reserve it requires. It charges a set per hour fee for computer programming, which it bills on an actual-hours-used basis.

The Network Support Unit is requesting a rate of \$714 per computer in fiscal 2002 and \$732 per computer in fiscal 2003 for computer support. For server support, the unit is requesting a rate of \$1,072 in fiscal 2002 and \$1,098 in fiscal 2003. The unit is requesting a 60-day working capital rate for computer programming support.

**LFD
ISSUE**

The Network Support Unit requests that the legislature approve a 60-day working capital reserve as its maximum rate for fees and charges for the 2003 biennium. The 60-day working capital reserve rate is being justified because some of the cost variables would prohibit the unit from establishing specific per hour rates. The unit contends that various levels of complexity in the programming requests of the unit would impose salary requirements that depend on the knowledge, skills, and abilities of staff necessary to meet the needs of users. High rates of turnover of programming staff and training costs needed to develop new and existing staff resources would inhibit the unit's ability to predict expenses and determine rates. The unit states that these complexities associated with the costs of staff resources would not allow the unit to accurately predict staff costs to meet user needs and would justify the flexibility of a 60-day working capital rate.

**LFD ISSUE
CONTINUED**

The issue, "Legislative Approval of Fees and Charges," contained in the agency section of this report for the department discusses the issue the unit has identified as justification for a 60-day working capital reserve as the rate for programming staff fees. The legislature may wish to request that the unit propose a specific hourly fee that would allow the unit reasonable latitude to provide programming services to all its customers and that the legislature could approve as the maximum fee for the unit during the 2003 biennium.

Warrant Writer Program (A/E 06564)**Program Description**

The Warrant Writer Program provides check writing and automatic-deposit capabilities for financial transactions to most state agencies. The program produces and processes warrants and tracks them on the warrant writer system. The program generates, mails, tracks, and cashes each warrant. The services the program offers include direct deposit, warrant consolidation, stopping of payments, warrant cancellations, emergency warrants, duplicate warrants, warrant certification, warrant research, payee file data, and federal 1099-MISC processing.

The system handles about 2 million payment transactions per year. Payment transactions include warrant writing and electronic transfers for vendor payments, retirement payments for public employees and teachers, payroll, workers' compensation, income tax refunds, special refunds, and public assistance benefit payments. In addition, the program maintains a central payee file to facilitate payment processing. The program also consolidates 1099-MISC information for the Internal Revenue Service (IRS). The program coordinates compliance with IRS rules governing 1099 MISC-filings and error reports.

Revenues and Expenditures

The program uses historical data to forecast the following categories of payments: mailer warrants, non-mailer warrants, emergency warrants, duplicate warrants, external warrants, and electronic fund transfers. The program forecasts revenues of \$831,766 in fiscal 2002 and \$845,138 in fiscal 2003. These are increases of 14 percent and 16 percent from base year revenues. The program forecasts expenses of \$807,975 in fiscal 2002 and \$824,609 in fiscal 2003. These amounts are increases of 5 percent and 6 percent, respectively, from base year expenses. The increases in revenues and expenditures are because of a projected increase in postage and warrant stock. The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund number 06564 shows historical and projected revenues, expenses, fund equity, and retained earnings for the warrant writing internal service fund.

Report on Internal Service & Enterprise Funds, 2003 Biennium

Fund Number	Fund Name	Agency Number	Agency Name	Program Name
06564	Warrant Writing	6101	Department of Administration	

Fund Balance Information

	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03
Beginning Retained Earnings	-	78,766	107,245	118,182	48,099	1,767	30,249	54,040
Increases								
Fee Revenue	946,443	818,228	759,235	868,479	729,763	671,442	831,766	845,138
Investment Earnings	-	-	-	-	-	-	-	-
Transfers In	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	12	345	350	-	-	-
Miscellaneous, other	-	-	-	-	-	-	-	-
Total Increases	946,443	818,228	759,247	868,824	730,113	671,442	831,766	845,138
(Decreases)								
Personal Services	180,144	167,075	165,385	169,284	132,254	161,566	166,413	171,405
Operations	689,011	622,674	588,029	644,436	644,186	481,394	641,562	653,204
Transfers Out	-	-	-	125,187	-	-	-	-
Miscellaneous, operating	-	-	-	-	-	-	-	-
Miscellaneous, other	-	-	-	-	-	-	-	-
Total Decreases	869,155	789,749	753,414	938,907	776,440	642,960	807,975	824,609
Adjustments to Beginning Retained Earnings	1,478	-	5,104	-	(5)	-	-	-
Ending Retained Earnings	78,766	107,245	118,182	48,099	1,767	30,249	54,040	74,569
Total Contributed Capital	34,881	35,756	20,779	20,779	20,779	-	-	-
Total Fund Equity	113,647	143,001	138,961	68,878	22,546	30,249	54,040	74,569
Unreserved Fund Balance								
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	144,859	131,625	125,569	135,620	129,407	107,160	134,663	137,435

Fee/Rate Information for Legislative Action:

Requested ALLOCATED rates for	xxxx	xxxx						Authority
warrant writer					\$677,203	\$671,442	\$831,766	\$845,138
Budget is distributed as a fixed cost to agencies based on FY2000 actuals								

Rate Explanation

Table 3B shows the rates proposed by the executive for the Warrant Writer Program for the 2003 biennium.

Table 3B Warrant Writer Rates				
Rate Category	Rate Unit	Base	Fiscal 2002	Fiscal 2003
Mailer Warrants	Per warrant	\$0.5028	\$0.6170	\$0.6145
Non-Mailers	Per warrant	0.1823	0.2080	0.2055
Emergency Warrants	Per warrant	3.3019	4.1329	4.1320
Duplicate Warrants	Per warrant	0.5036	5.6632	5.6624
Direct Deposits	Per warrant	0.0954	0.1671	0.1660
Externals (printed from an outside system)	Per warrant		0.1850	0.1825

PL5 - Network Support Unit Rates for Legal Unit/War Wtr - This request would fund an increase to the network support allocation to the Warrant Writer Unit for maintenance support of unit computers and printers.

Program Proposed Budget									
Budget Item	Base Budget Fiscal 2000	PL Adjustment Fiscal 2002	Base New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Adjustment Fiscal 2003	Base New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03	
FTE	17.50	0.00	0.00	17.50	0.00	0.00	17.50	17.50	
Personal Services	761,997	88,857	0	850,854	93,861	0	855,858	1,706,712	
Operating Expenses	272,835	33,142	0	305,977	36,584	0	309,419	615,396	
Transfers	0	0	0	0	0	0	0	0	
Total Costs	\$1,034,832	\$121,999	\$0	\$1,156,831	\$130,445	\$0	\$1,165,277	\$2,322,108	
State/Other Special	1,034,832	121,999	0	1,156,831	130,445	0	1,165,277	2,322,108	
Capital Projects	0	0	0	0	0	0	0	0	
Total Funds	\$1,034,832	\$121,999	\$0	\$1,156,831	\$130,445	\$0	\$1,165,277	\$2,322,108	

Program Description

The Architecture and Engineering Division (A&E) manages remodeling and construction of state buildings. The division plans new and remodeling projects; advertises, bids, and awards construction contracts; administers contracts with architects, engineers, and contractors; disburses building construction payments; and provides design services for small projects. The division also formulates a long-range building plan for legislative consideration each session.

Funding

The Architecture and Engineering Division is funded with funds transferred from the long-range building capital projects fund to a state special revenue account established for administrative expenditures.

Present Law Adjustments									
-----Fiscal 2002-----					-----Fiscal 2003-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				113,201					118,360
Vacancy Savings				(24,344)					(24,499)
Inflation/Deflation				3,668					6,088
Fixed Costs				16,197					17,155
Total Statewide Present Law Adjustments				\$108,722					\$117,104
DP 1 - Miscellaneous Operating Costs - DOA									
0.00	0	13,277	0	13,277	0.00	0	13,341	0	13,341
Total Other Present Law Adjustments									
0.00	\$0	\$13,277	\$0	\$13,277	0.00	\$0	\$13,341	\$0	\$13,341
Grand Total All Present Law Adjustments				\$121,999					\$130,445

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD ISSUE

The statewide present law adjustment for personal services are increases of 14.9 percent for fiscal 2002 and 15.5 percent for fiscal 2003. These apparently high increases are due to two positions that were vacant for all of fiscal 2000. As of pay period ending November 17, 2000, one of these positions was still vacant. The legislature may wish to ask the executive if position 61102021, a grade 16 architect is still needed and if so, what work was not accomplished because of this vacancy.

DP 1 - Miscellaneous Operating Costs - DOA - This request would fund increases in department indirect/administrative costs for services received from the proprietary funded Legal Services Unit and Network Support Unit.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2000	PL Adjustment Fiscal 2002	Base New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Adjustment Fiscal 2003	Base New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	10.36	0.33	0.00	10.69	0.33	0.00	10.69	10.69
Personal Services	407,827	24,061	0	431,888	25,929	0	433,756	865,644
Operating Expenses	94,623	8,613	0	103,236	8,688	0	103,311	206,547
Equipment	6,074	0	0	6,074	0	0	6,074	12,148
Total Costs	\$508,524	\$32,674	\$0	\$541,198	\$34,617	\$0	\$543,141	\$1,084,339
General Fund	508,524	32,674	0	541,198	34,617	0	543,141	1,084,339
Total Funds	\$508,524	\$32,674	\$0	\$541,198	\$34,617	\$0	\$543,141	\$1,084,339

Program Description

The Procurement and Printing Division is divided into four separate functions, as follows: 1) Publications and Graphics Bureau; 2) Property and Supply Bureau; 3) State Procurement Bureau; and 4) vehicle fueling, energy procurement, and state procurement card.

The Publications and Graphics Bureau provides printing, duplicating, desktop publishing, layout and design, graphic and illustrative art, forms design, photo-reprographics, binding and quick copy, and photocopier pool services for state agencies.

The Property and Supply Bureau purchases, stocks, and sells office supplies, paper, janitorial supplies, and packaged computer software to state agencies and administers the sale of state and federal surplus property.

The State Procurement Bureau manages centralized purchasing for state agencies by investigating possible sources for products, determining alternate product possibilities, preparing specifications, enforcing the terms and conditions outlined in purchase orders, and providing technical assistance to state agencies regarding purchasing laws.

The vehicle fueling, energy procurement, and state procurement card functions administer contracts for the statewide fueling network, the deregulated purchase of electricity and natural gas, and the state's MasterCard contract for the automated processing of small purchases.

Funding

The division is funded with general fund and proprietary funds. The Publications and Graphics Bureau is funded with proprietary funds derived through payments for services provided to other state agencies. The Property and Supply Bureau is funded with proprietary funds derived through payments for goods and services provided to local governments and other state agencies. The State Procurement Bureau is funded from the general fund. The vehicle fueling, energy procurement, and State Procurement Card functions are funded with proprietary funds derived through markups on the cost of fuel and natural gas purchased for resale to state institutions and university system units.

Since only the State Procurement Bureau is funded with general fund, the amounts in the main budget table pertain only to that bureau.

Present Law Adjustments										
-----Fiscal 2002-----					-----Fiscal 2003-----					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				21,971						23,843
Vacancy Savings				(11,794)						(11,850)
Inflation/Deflation				293						712
Fixed Costs				4,553						5,016
Total Statewide Present Law Adjustments				\$15,023						\$17,721
DP 4 - Procurement Other Fixed Costs										
0.00	1,667	0	0	1,667	0.00	1,880	0	0		1,880
DP 9 - Programmer: Procurement HB2										
0.33	15,984	0	0	15,984	0.33	15,016	0	0		15,016
Total Other Present Law Adjustments										
0.33	\$17,651	\$0	\$0	\$17,651	0.33	\$16,896	\$0	\$0		\$16,896
Grand Total All Present Law Adjustments				\$32,674						\$34,617

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 4 - Procurement Other Fixed Costs - This request would fund increases in department indirect/administrative costs for services received from the proprietary funded centralized service functions of the agency.

DP 9 - Programmer: Procurement HB2 - This request would fund the addition of 0.33 FTE grade 15, programmer/analyst and associated operating expenses to provide dedicated programming and computer support. The executive is requesting funding at the market salary level and has identified difficulty to recruit and retain information technology personnel as the basis for the request.

LFD COMMENT

The executive has requested funding for 1.0 FTE grade 15, programmer/analyst, but 0.67 FTE of this request is being requested in the proprietary funded portion of this program (0.34 FTE) and the Mail and Distribution Program (0.33 FTE) and does not appear on the above table.

LFD ISSUE

This request would provide funding for a dedicated programmer to replace a portion of the programming burden the program would have on the Network Support Unit in the department Accounting and Management Support Program that has been providing this service for a fee. However, the Network Support Unit has stated that the unit does not have the resources to meet the programming needs of the Procurement and Printing Division. The Procurement and Printing Division has specialized needs for Oracle programming and support to integrate the Paris software with the financial modules of the Statewide Accounting, Budgeting, and Human Resource System (SABHRS). Paris is software used to track the transactions made by users of state procurement cards. The services this position would provide could be made available from the Network Support Unit if the unit either provided training or hired staff with the required skills and knowledge.

**LFD ISSUE
CONTINUED**

Developing the skills in the Network Support Unit to provide programming services for the Procurement and Printing Division would develop a resource that could potentially serve other department programs, as well as the Procurement and Printing Division. As such, this request identifies a policy issue that the legislature may wish to address.

By approving this request, the legislature would be opening the door for other programs to opt out of using services that are currently provided from a centralized unit, which was specifically created to provide these services. The primary benefit for opting out of using a centralized service is that of control. If a program has dedicated staff to perform a centrally available function, the program has more control of the projects that would be completed, because they don't have to compete with other programs for use of the centrally available resources. This said, the legislature may wish to:

- 1) approve this request and possibly set a precedent for departing from the enterprise approach for providing computer and programming support; or
- 2) disapprove the request and reinforce the enterprise approach to providing support for computers and programming support.

Proprietary Rates**Publications and Graphics Account (A/E 06530)****Program Description**

The Publications and Graphics Bureau prints; duplicates; provides photocopy pool copiers; provides typography; provides all aspects of graphic design and production, including layout and design, graphic and illustrative art, photo-reprographics, binding, and quick copy; and contracts certain printing functions to private printing vendors.

Proprietary Revenues and Expenditures

The program anticipates revenues of \$5.7 million in fiscal 2002 and \$6.1 million in fiscal 2003. These amounts are increases of approximately 8 percent and 14 percent, respectively, over base year revenue. The program anticipates expenses of \$5.8 million in fiscal 2002 and \$6.2 million in fiscal 2003. These amounts are increases of approximately 8 percent and 16 percent, respectively, over base year expenses. The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund number 06530 shows historical and projected revenues, expenses, fund equity, and retained earnings for the publications and graphics internal service fund.

Proprietary Rates

The program requests that the legislature allow it to charge fees for its services that would allow it to maintain a 60-day working capital reserve. The program requests that the legislature approve a rate for operation of the Publications and Graphics Bureau based on maintaining no more than a 60-day working capital reserve.

Report on Internal Service & Enterprise Funds, 2003 Biennium								
Fund Number 06530		Fund Name Publications & Graphics		Agency Number 6101		Agency Name Department of Administration		Program Name
Fund Balance Information								
	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03
Beginning Retained Earnings	1,323,788	1,259,002	1,253,238	1,104,978	1,135,694	1,047,846	772,919	697,524
Increases								
Fee Revenue	6,392,741	6,454,867	6,212,956	5,464,557	5,312,666	6,498,100	5,736,992	6,074,862
Investment Earnings	-	-	-	594	-	-	-	-
Transfers In	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	50	1,267	1,569	-	-	-
Miscellaneous, other	-	13,148	-	-	-	-	-	-
Total Increases	6,392,741	6,468,015	6,213,006	5,466,418	5,314,235	6,498,100	5,736,992	6,074,862
(Decreases)								
Personal Services	754,187	862,267	774,991	862,663	802,792	958,171	871,090	969,086
Operations	5,698,851	5,611,512	5,536,848	4,570,634	4,516,113	5,632,911	4,660,643	4,899,496
Transfers Out	-	-	-	-	-	181,945	280,654	310,154
Miscellaneous, operating	-	-	-	-	15,573	-	-	-
Miscellaneous, other	4,489	-	14,160	8,990	7,192	-	-	-
Total Decreases	6,457,527	6,473,779	6,325,999	5,442,287	5,341,670	6,773,027	5,812,387	6,178,736
Adjustments to Beginning Retained Earnings	-	-	(35,267)	6,585	(60,413)	-	-	-
Ending Retained Earnings	1,259,002	1,253,238	1,104,978	1,135,694	1,047,846	772,919	697,524	593,650
Total Contributed Capital	-	-	-	-	-	-	-	-
Total Fund Equity	1,259,002	1,253,238	1,104,978	1,135,694	1,047,846	772,919	697,524	593,650
Unreserved Fund Balance								
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	1,075,506	1,078,963	1,051,973	905,550	889,080	1,098,514	921,956	978,097
Fee/Rate Information for Legislative Action:								
Requested Rates for Internal Service Funds			xxxx	xxxx	The program must maintain a break-even approach in their operations, and have a large number of individual rates for the various products or services provided. Therefore, previous legislatures defined "rates and fees" for the program to mean a specific working capital reserve balance. The P & G Bureau requests a 60-day working capital reserve.			

**LFD
ISSUE**

The program has requested 60-day working capital rate, justifying the request with the rationale that a 60-day working capital rate provides flexibility to adjust rates due to demand for services. The program has stated that the flexibility gained from a 60-day working capital rate would allow the program to lower or increase the rates charged to agencies to respond to business volume the program experiences without the need to inflate their rates to meet unanticipated increases in the cost of goods needed to provide the service.

The issues, "Legislative Approval of Fees and Charges," contained in the agency section of this report for the department shows that financial laws for fees and charges as long as they are below the maximum levels approved by the legislature and they are commensurate with costs. As such, the legislature may wish to request that the program provide a schedule of specific fees and charges for legislative approval as the maximum rates for the 2003 biennium.

DP 1 – Programmer: P&G – This request would fund the addition of 0.34 FTE grade 15, programmer/analyst and associated operating expenses to provide dedicated programming and computer support. The executive is requesting funding at the market salary level and has identified the difficulty to recruit and retain information technology personnel as the basis for the request. The executive has requested funding for 0.67 FTE, but 0.33 FTE of this request is being requested in the HB 2 funded portion of this program.

Rate Impact: This request would provide no material impact on the fees and charges proposed by the program.

**LFD
ISSUE**

The program requests funding to add FTE that would provide the same function as existing FTE of a centralized service unit of the department. This issue has been raised earlier for a related decision package. Please refer to the LFD issue following present law DP 9 for this program.

DP 6 - P&G Present Law Adjustment - The executive requests funding for overtime and increases in operating expenses and equipment. Overtime would provide annual overtime below the base level to cover rush printing jobs and fiscal year-end printing and also would provide an additional \$12,200 in fiscal 2003 to support the 2003 legislative session.

Increases in operating expenses would fund: 1) increases in the cost of printing supplies; 2) the cost of maintenance, paper, and other printing supplies during the 2003 legislative session; 3) inflationary increases in the cost of goods purchased for resale; and 4) higher per-copy photocopy term contract costs in fiscal 2003. Increases are expected for the per-copy photocopier term contract as the current contract is rebid. The primary factor behind the photocopier per-copy contract increase is that digital copiers would be provided instead of the analog photocopiers that are currently being used.

Increases in equipment would fund an additional \$50,000 per year to cover the installment purchase of a high speed electronic processing duplicator and \$120,500 in fiscal 2002 and \$150,000 in fiscal 2003 to replace worn out, fully-depreciated existing duplicating equipment.

Rate Impact: This request would provide no material impact on the fees and charges proposed by the program.

Central Stores Account (Fund 06531)**Program Description**

Central Stores purchases, warehouses, sells, and delivers commonly used items to all state agencies in the following categories: office supplies, coarse paper, fine paper, computer paper, janitorial supplies, printed forms, and software.

Proprietary Revenues and Expenditures

The program anticipates revenues of \$4.7 million in fiscal 2002 and \$4.7 million in fiscal 2003. These amounts are increases of roughly 11 percent for each year of the 2003 biennium, over base year revenue. The program anticipates expenses of \$4.7 million in fiscal 2002 and \$4.6 million in fiscal 2003. These amounts are increases of approximately 5 percent per year over base year expenses. The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund number 06531 shows historical and projected revenues, expenses, fund equity, and retained earnings for the central stores internal service fund.

Report on Internal Service & Enterprise Funds, 2003 Biennium

Fund Number	Fund Name	Agency Number	Agency Name	Program Name
06531	Central Stores	6101	Department of Administration	

Fund Balance Information

	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03
Beginning Retained Earnings	1,533,996	1,540,330	1,479,507	1,216,698	915,987	578,031	459,072	485,663
Increases								
Fee Revenue	4,096,015	3,584,670	3,787,540	3,671,379	4,219,466	4,073,242	4,677,771	4,676,102
Investment Earnings	-	-	-	-	-	-	-	-
Transfers In	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	200	438	980	-	-	-
Miscellaneous, other	-	-	-	-	-	-	-	-
Total Increases	4,096,015	3,584,670	3,787,740	3,671,817	4,220,446	4,073,242	4,677,771	4,676,102
(Decreases)								
Personal Services	263,458	303,322	340,579	336,006	340,698	372,693	362,687	365,472
Operations	3,763,745	3,339,498	3,677,439	3,647,016	4,087,286	3,819,508	4,288,493	4,274,136
Transfers Out	-	-	-	-	-	-	-	-
Miscellaneous, operating	2,118	1,065	-	-	-	-	-	-
Miscellaneous, other	2,691	1,608	3,402	-	-	-	-	-
Total Decreases	4,032,012	3,645,493	4,021,420	3,983,022	4,427,984	4,192,201	4,651,180	4,639,608
Adjustments to Beginning Retained Earnings	(57,669)	-	(29,129)	10,494	(130,418)	-	-	-
Ending Retained Earnings	1,540,330	1,479,507	1,216,698	915,987	578,031	459,072	485,663	522,157
Total Contributed Capital	-	-	-	-	-	-	-	-
Total Fund Equity	1,540,330	1,479,507	1,216,698	915,987	578,031	459,072	485,663	522,157
Unreserved Fund Balance								
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	671,554	607,314	669,670	663,837	737,997	698,700	775,197	773,268

Fee/Rate Information for Legislative Action:

Requested Rates for Internal Service
Funds xxxx xxxx

-----Estimated-----
The program must maintain a break-even approach in their operations, and have a large number of individual rates for the various products sold or services provided. Therefore, previous legislatures defined "rates and fees" for the program to mean a specific working capital reserve balance. The Central Stores Account requests a 60-day working capital reserve

Proprietary Rates

The program requests that the legislature allow it to charge fees for its services that would allow it to maintain a 60-day working capital reserve.

**LFD
COMMENT**

The 1999 legislature approved a rate for Central Stores based on maintaining a 60-day working capital reserve. The rate was approved because of the accounting inefficiencies that would result from approving specific rates for a large number of low cost items that are sold, purchased, and resold by the program.

DP 7 - P&S Accountant 1.0 FTE - This request would fund the addition of 1.0 FTE grade 12, accountant to address workload increases. The additional staffing would assist with order entry, invoicing, accounts receivable, special projects, and would function as a backup for other accounting staff. The position would also assist in reconciling the bureau's subsystem to SABHRS.

DP 8 - P&S Equip, Goods for Resale, Indirect/Admin Costs - This request would fund the replacement of personal computers, a network server, and printers that the program considers to be obsolete. It would also fund inflationary increases in the costs of goods purchased for resale and increases in department indirect/administrative costs for services received from the proprietary funded Legal Services Unit and Network Support Unit.

Surplus Properties Account (Fund 06066)**Program Description**

The Property and Supply Bureau operates the surplus property program to administer the sale of state and federal surplus property no longer needed by state agencies. The bureau attempts to extend the life of state property by providing a mechanism to transfer surplus property between agencies, political subdivisions, and the public. It also attempts to create a broad and efficient market for selling state surplus property and to provide accountability in the disposal of surplus state property.

Proprietary Revenues and Expenditures

The program anticipates revenues of \$554,684 in fiscal 2002 and \$548,235 in fiscal 2003. These amounts are increases of roughly 39 percent in fiscal 2002 and 38 percent in fiscal 2003 over base year revenue. The program anticipates expenses of \$526,060 in fiscal 2002 and \$530,441 in fiscal 2003. These amounts are increases of approximately 11 percent per year over base year expenses. The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund number 06066 shows historical and projected revenues, expenses, fund equity, and retained earnings for the surplus property enterprise fund.

Proprietary Rates

The program charges a rate on the surplus of federal property based on original acquisition value of the property plus freight costs on items brought to the surplus warehouse. The federal General Services Agency (GSA) approves the rate the program charges for surplus of federal property. For state property the program charges a tiered fee depending upon the amount of equipment an agency has for sale. Because the program is funded with an enterprise fund, the legislature does not approve the rates for the surplus property enterprise fund.

Report on Internal Service & Enterprise Funds, 2003 Biennium								
Fund Number	Fund Name	Agency Number	Agency Name	Program Name				
06066	Surplus Property	6101	Department of Administration					
Fund Balance Information								
	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03
Beginning Retained Earnings	-	207,995	344,562	313,415	280,553	143,760	146,031	174,655
Increases								
Fee Revenue	837,222	767,530	533,666	472,048	397,991	549,137	554,684	548,235
Investment Earnings	-	-	-	-	-	-	-	-
Transfers In	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	-	257	2	-	-	-
Miscellaneous, other	-	-	-	-	-	-	-	-
Total Increases	837,222	767,530	533,666	472,305	397,993	549,137	554,684	548,235
(Decreases)								
Personal Services	280,568	244,430	225,443	223,563	216,220	233,639	256,175	257,624
Operations	400,100	374,522	331,753	281,604	259,024	313,227	269,885	272,817
Transfers Out	-	-	-	-	-	-	-	-
Miscellaneous, operating	2,036	1,065	-	-	-	-	-	-
Miscellaneous, other	4,202	10,946	2,835	-	-	-	-	-
Total Decreases	686,906	630,963	560,031	505,167	475,244	546,866	526,060	530,441
Adjustments to Beginning Retained Earnings	57,679	-	(4,782)	-	(59,542)	-	-	-
Ending Retained Earnings	207,995	344,562	313,415	280,553	143,760	146,031	174,655	192,449
Total Contributed Capital	300,163	693,873	284,849	284,262	799,476	500,000	450,000	400,000
Total Fund Equity	508,158	1,038,435	598,264	564,815	943,236	646,031	624,655	592,449
Unreserved Fund Balance								
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	113,784	103,336	92,866	84,195	79,207	91,144	87,677	88,407
Fee/Rate Information for Legislative Action:								
						-----Estimated-----		
Requested Rates for Internal Service Funds								

Natural Gas Procurement Account (Fund 06558)**Program Description**

The Natural Gas Transportation Program purchases natural gas and electricity competitively from outside suppliers for qualifying state agencies.

Proprietary Revenues and Expenditures

The program anticipates revenues of \$104 per year in fiscal 2002 and fiscal 2003. These amounts are decreases of 74 percent over base year revenue. The program anticipates expenses of \$104 per year in fiscal 2002 and fiscal 2003. These amounts are decreases of approximately 77 percent over base year expenses. The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund number 06558 shows historical and projected revenues, expenses, fund equity, and retained earnings for the natural gas procurement internal service fund.

Proprietary Rates

The program requests that the legislature allow it to charge fees for its services that would allow it to break even on operations (maintain revenues equal to expenditures, with no working capital reserve). The program will charge back actual expenses to the applicable agencies.

Report on Internal Service & Enterprise Funds, 2003 Biennium								
Fund Number 06558		Fund Name Natural Gas Procurement		Agency Number 6101		Agency Name Department of Administration		Program Name
Fund Balance Information								
	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03
Beginning Retained Earnings	2,089	1,897	1,695	2,285	3,277	4,041	0	0
Increases								
Fee Revenue	99,285	-	952	1,312	404	104	104	104
Investment Earnings	-	-	-	-	-	-	-	-
Transfers In	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	-	-	-	-	-	-
Miscellaneous, other	-	-	-	-	-	-	-	-
Total Increases	99,285	-	952	1,312	404	104	104	104
(Decreases)								
Personal Services	-	-	-	-	-	-	-	-
Operations	98,346	202	271	320	455	4,145	104	104
Transfers Out	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	-	-	-	-	-	-
Miscellaneous, other	1,131	-	-	-	-	-	-	-
Total Decreases	99,477	202	271	320	455	4,145	104	104
Adjustments to Beginning Retained Earnings	-	-	(91)	-	815	-	-	-
Ending Retained Earnings	1,897	1,695	2,285	3,277	4,041	0	0	0
Total Contributed Capital	-	-	-	-	-	-	-	-
Total Fund Equity	1,897	1,695	2,285	3,277	4,041	0	0	0
Unreserved Fund Balance								
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	16,391	34	45	53	76	691	17	17
Fee/Rate Information for Legislative Action:								
						-----Estimated-----		
Requested Rates for Internal Service Funds								
xxxx		xxxx		The Natural Gas and Electricity Procurement Account requests a break-even rate (no capital reserve) and will charge back actual expenses to the applicable agencies.				

Statewide Fueling Network Account (Fund 06561)**Program Description**

The Purchasing Bureau Vehicle Fueling Program provides for fueling of public vehicles through an integrated commercial/public fueling network. The program automates the accounting and transaction processing functions associated with vehicle fueling, offers a system of security, maintains agency tax-exempt status for transactions anywhere on the network, and provides monthly comprehensive fuel management reports that fleet managers can use to track and control fuels costs.

Proprietary Revenues and Expenditures

The program anticipates revenues of \$12,560 in fiscal 2002 and \$12,757 in fiscal 2003. These amounts are decreases of 22 percent and 21 percent from base year revenue. Revenues are derived from an administrative fee charged to users as a percent of fuel purchases. The legislature approves the level of the fee. The program anticipates expenses of \$16,742 in fiscal 2002 and \$17,005 in fiscal 2003. These amounts are increases of approximately 2.5 percent and 4.0 percent, respectively, over base year expenses. The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund number 06561 shows historical and projected revenues, expenses, fund equity, and retained earnings for the statewide fueling network internal service fund.

Report on Internal Service & Enterprise Funds, 2003 Biennium								
Fund Number 06561		Fund Name Statewide Fueling Network		Agency Number 6101	Agency Name Department of Administration	Program Name		
Fund Balance Information								
	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03
Beginning Retained Earnings	8,962	18,611	11,691	4,602	5,018	4,840	9,396	5,214
Increases								
Fee Revenue	16,991	8,477	9,724	9,705	16,103	22,363	12,560	12,757
Investment Earnings	-	-	-	-	-	-	-	-
Transfers In	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	-	-	54	-	-	-
Miscellaneous, other	-	-	-	-	-	-	-	-
Total Increases	16,991	8,477	9,724	9,705	16,157	22,363	12,560	12,757
(Decreases)								
Personal Services	-	-	-	-	-	-	-	-
Operations	7,342	15,397	11,515	9,289	16,335	17,807	16,742	17,005
Transfers Out	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	-	-	-	-	-	-
Miscellaneous, other	-	-	-	-	-	-	-	-
Total Decreases	7,342	15,397	11,515	9,289	16,335	17,807	16,742	17,005
Adjustments to Beginning Retained Earnings	-	-	(5,298)	-	-	-	-	-
Ending Retained Earnings	18,611	11,691	4,602	5,018	4,840	9,396	5,214	966
Total Contributed Capital	2,535	2,535	2,535	2,535	2,535	-	-	-
Total Fund Equity	21,146	14,226	7,137	7,553	7,375	9,396	5,214	966
Unreserved Fund Balance								
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	1,224	2,566	1,919	1,548	2,723	2,968	2,790	2,834
Fee/Rate Information for Legislative Action:								
-----Estimated-----								
Requested Rates for Internal Service Funds	xxxx	xxxx	The Statewide Fueling Network Account requests a 60-day working capital reserve. The program must maintain a break-even approach in their operations, and have a large number of individual rates for the various products sold or services provided. Therefore, previous legislatures defined "rates and fees" for the program to mean a specific working capital reserve balance.					

Proprietary Rates

The program requests that the legislature allow it to charge fees for its services that would allow it to maintain a 60-day working capital reserve.

**LFD
ISSUE**

The program is requesting a 60-day working capital reserve rate stating there are a large number of individual rates for the various products sold and services provide. However, when asked to justify the need for a 60-day working capital rate, the program responded that they collect one administrative fee of 0.5 percent of gross purchases. It is recommended that the legislature approve the administrative fee of 0.5 percent of the gross purchases as the rate for the 2003 biennium.

State Procurement Card Account (Fund 06571)**Program Description**

The State Procurement Card Program administers the State's MasterCard contract for the automated processing of small purchases.

Proprietary Revenues and Expenditures

The program anticipates revenues of \$3,709 in each fiscal year of the 2003 biennium. These amounts are decreases of 50 percent from base year revenue. The program anticipates expenses of \$3,704 in each fiscal year of the 2003 biennium. The primary expense is for procurement card maintenance contracts. These amounts are nearly the same as the base year expenses. The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund number 06571 shows historical and projected revenues, expenses, fund equity, and retained earnings for the state procurement card internal service fund.

Report on Internal Service & Enterprise Funds, 2001 Biennium								
Fund Number 06571	Fund Name Procurement Card Purchases	Agency Number 6101	Agency Name Department of Administration	Program Name				

Fund Balance Information								
	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03
Beginning Retained Earnings	-	-	-	-	-	3,722	522	527
Increases								
Fee Revenue	-	-	-	-	5,864	4,000	3,709	3,709
Investment Earnings	-	-	-	-	-	-	-	-
Transfers In	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	-	-	1,581	-	-	-
Miscellaneous, other	-	-	-	-	-	-	-	-
Total Increases	-	-	-	-	7,445	4,000	3,709	3,709
(Decreases)								
Personal Services	-	-	-	-	-	-	-	-
Operations	-	-	-	-	3,723	7,200	3,704	3,704
Transfers Out	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	-	-	-	-	-	-
Miscellaneous, other	-	-	-	-	-	-	-	-
Total Decreases	-	-	-	-	3,723	7,200	3,704	3,704
Adjustments to Beginning Retained Earnings	-	-	-	-	-	-	-	-
Ending Retained Earnings	-	-	-	-	3,722	522	527	532
Total Contributed Capital	-	-	-	-	-	-	-	-
Total Fund Equity	-	-	-	-	3,722	522	527	532
Unreserved Fund Balance								
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	-	-	-	-	621	1,200	617	617

Fee/Rate Information for Legislative Action:								
						-----Estimated-----		
Requested Rates for Internal Service Funds	xxxx	xxxx	The Procurement Card Purchases Account requests a 60-day working capital reserve. The program must maintain a break-even approach in their operations, and have a large number of individual rates for the various products sold or services provided. Therefore, previous legislatures defined "rates and fees" for the program to mean a specific working capital reserve balance.					

Proprietary Rates

The program requests that the legislature allow it to charge fees for its services that would allow it to maintain a 60-day working capital reserve.

**LFD
ISSUE**

The program is requesting a 60-day working capital reserve rate stating there are a large number of individual rates for the various products sold and services provide. However, when asked to justify the need for a 60-day working capital rate, the program responded that they charge \$1 per card per month to pay for operating costs. It is recommended that the legislature approve only the administrative fee of \$1 per card per month as the rate for the 2003 biennium.

Program Proposed Budget									
Budget Item	Base Budget Fiscal 2000	PL Adjustment Fiscal 2002	Base New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Adjustment Fiscal 2003	Base New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03	
FTE	2.00	0.00	1.00	3.00	0.00	1.00	3.00	3.00	
Personal Services	97,055	136	55,418	152,609	746	55,618	153,419	306,028	
Operating Expenses	501,057	331,351	7,258	839,666	(471,052)	7,263	37,268	876,934	
Equipment	0	0	0	0	0	0	0	0	
Total Costs	\$598,112	\$331,487	\$62,676	\$992,275	(\$470,306)	\$62,881	\$190,687	\$1,182,962	
General Fund	598,112	(468,513)	62,676	192,275	(470,306)	62,881	190,687	382,962	
Federal Special	0	800,000	0	800,000	0	0	0	800,000	
Total Funds	\$598,112	\$331,487	\$62,676	\$992,275	(\$470,306)	\$62,881	\$190,687	\$1,182,962	

Program Description

The Information Services Division (ISD) manages central computer and telecommunications services for state government. Through its central computing services function, the division provides central mainframe computer processing services and network services for statewide data communications networks that access the central mainframe computer. The division plans and coordinates data processing for state agencies and reviews and approves equipment and software acquisitions. It designs and develops data processing applications and provides continuous maintenance support. The division also provides data processing training and support and consulting services for microcomputer and office automation systems. The division manages disaster recovery facilities for critical data processing applications.

The telecommunications function of the division provides local and long distance telephone network services and designs, develops telephone equipment network applications, and serves other telecommunications needs for state agencies. It also manages the statewide 911 emergency telephone services and coordinates use of radio frequencies with local governments.

The division also oversees Geographic Information Systems (GIS) development and the State Accounting, Budgeting, and Human Resources System (SABHRS).

Program Reorganization

The Information Services Division underwent reorganization at the end of fiscal 2000. The division moved from being structured around key system components and services that supported technology as an infrastructure asset to one that more reflects information technology as a basic element of the day-to-day business environment. The new organization has diminished the role of applications development and elevated the presence of Internet technologies as a key component of government business. The new organization would provide efficiencies that would eliminate 33.5 FTE out of 203.0 FTE in fiscal 2002, and reduce funding by roughly \$1.1 million over the 2003 biennium. The adjustment to implement this reorganization is included as present law DP 9, ISD Organization Adjustments, in the proprietary section.

Funding

Nearly all the operations of the Information Services Division are funded with proprietary funds. The program receives general fund to operate the Statewide 911 Emergency Telephone Service. During the 2001 biennium, general fund provided partial support for SABHRS operating system licensing costs. A proposal is included in the Executive Budget to move this expense to proprietary funding in the 2003 biennium. Budget adjustments would add federal funds for maintaining geographic information systems cadastral databases and general fund for the public safety radio system.

Present Law Adjustments										
-----Fiscal 2002-----					-----Fiscal 2003-----					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				2,923						3,552
Vacancy Savings				(2,787)						(2,806)
Inflation/Deflation				674						1,073
Fixed Costs				2,176						1,374
Total Statewide Present Law Adjustments				\$2,986						\$3,193
DP 3 - PeopleSoft Maintenance - GF										
0.00	(476,314)	0	0	(476,314)	0.00	(476,314)	0	0		(476,314)
DP 16 - 911 GF Adjustments to base										
0.00	4,815	0	0	4,815	0.00	2,815	0	0		2,815
DP 17 - Statewide GIS Data Base - Federal										
0.00	0	0	800,000	800,000	0.00	0	0	0		0
Total Other Present Law Adjustments										
0.00	(\$471,499)	\$0	\$800,000	\$328,501	0.00	(\$473,499)	\$0	\$0		(\$473,499)
Grand Total All Present Law Adjustments				\$331,487						(\$470,306)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 3 - PeopleSoft Maintenance – GF - This request would remove funding for SABHRS operating system vendor maintenance costs from the general fund. A separate decision package (present law - DP4) would fund these costs with proprietary funding.

DP 16 - 911 GF Adjustments to base - This request would fund increases in miscellaneous operating expenses such as supplies, communications, travel, maintenance, training, and dues. The increase in travel and training costs are primarily due to attendance at conferences and seminars.

DP 17 - Statewide GIS Data Base - Federal - This request would fund the statewide GIS Cadastral Database project. Funding would provide contracted services to continue to automate Montana's land parcel information based on a standard database design and to provide a program to train local governments in the use of the data.

LFD ISSUE The project was scheduled to be completed in fiscal 2001, so the 1999 legislature funded this request with general fund and federal special revenue as a one-time-only appropriation for the 2001 biennium. As such, the above budget table does not include any base expenditure for this function.

New Proposals										
-----Fiscal 2002-----					-----Fiscal 2003-----					
Prgm	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 1 - Public Safety Communications Program - GF										
07	1.00	62,676	0	0	62,676	1.00	62,881	0	0	62,881
Total	1.00	\$62,676	\$0	\$0	\$62,676	1.00	\$62,881	\$0	\$0	\$62,881

New Proposals

DP 1 - Public Safety Communications Program - GF - This request would fund the addition of 1.0 FTE grade 16, information systems support specialist and operating costs to operate the state Public Safety Communications Program.

**LFD
ISSUE**

The Legislative Fiscal Report 2001 Biennium states that the 1999 legislature declined to fund the public safety radio program with general fund and included a decision package that removed program funding. However, during the 2001 biennium, the agency funded the state Public Safety Communications Program with proprietary funds provided by charges for central data processing services. The agency stated that proprietary funding was used to perform the duties included in Sections 2-17-311 through 2-17-313, MCA.

Proprietary Rates**Program Description**

ISD receives proprietary funding to pay its costs of managing central computer services and telecommunications services for state government. Proprietary funds pay the expenses of the central computing services function along with the other information system management services the division provides. The division provides central mainframe computer processing services and network services for statewide data communications networks that access the central mainframe computer.

The division's telecommunications function receives proprietary funds to pay the costs of providing local and long distance telephone network services and the costs of designing and developing telephone equipment network applications.

The division also receives proprietary funds for a portion of the costs of the Montana Geographic Information Systems project and for most of the costs of the SABHRS program. SABHRS is housed in the division and is responsible for the operation and maintenance of the Montana Budget Analysis and Reporting System (MBARS) and the PeopleSoft human resource, financial, and asset management systems.

Revenues and Expenses

The division receives revenues from charges to agencies for agency use of the central computer and telecommunications systems of the state. Revenues are forecasted to be nearly \$31.4 million in fiscal 2002 and nearly \$31.1 million in fiscal 2003. These revenues are roughly 6 percent over the revenues received during the base year. The division uses these revenues to pay personal service and other operating costs associated with planning, administering, and operating the central computer and telecommunications systems of the state. Expenditures are forecasted to be nearly \$31.0 million in fiscal 2002 and just over \$31.1 million in fiscal 2003. These expenses are increases of nearly 12 percent for each year of the 2003 biennium. The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund number 06522 shows historical and projected revenues, expenses, fund equity, and retained earnings for the ISD internal service fund.

Revenues relating to the internal service fund are mainly from four major revenue centers:

- ?? Computing Technology Services Bureau (CTSB): revenues are generated from state mainframe and mid-tier processing rates and are based upon central processing unit (CPU) seconds or other per transaction rates and client server contracts. Local area network support is based upon an hourly service rate.
- ?? Network Technology Services Bureau (NTSB) - Network Services Section: desktop services rates are charged on a monthly or yearly basis and are assessed for each workstation or installation.
- ?? Network Technology Services Bureau (NTSB) - Voice Services Section: voice telecommunication rates are charged on equipment counts and on actual long distance usage.
- ?? SABHRS Services Bureau: SABHRS support unit rates are based on fiscal 2000 actual FTE, with exceptions for the Benefits Bureau of the Department of Administration and the Montana University System. The Benefits Bureau and Montana University System are each assessed a negotiated amount.

Report on Internal Service & Enterprise Funds, 2003 Biennium									
Fund Number 06522		Fund Name ISD Proprietary		Agency Number 6101		Agency Name Department of Administration		Program Name	
Fund Balance Information									
	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03	
Beginning Retained Earnings	6,693,147	8,633,883	3,081,853	1,151,133	855,210	(5,918,008)	1,540,828	1,961,610	
Increases									
Fee Revenue	22,529,518	18,265,611	22,372,396	23,593,484	29,495,486	27,960,214	31,367,711	31,135,528	
Investment Earnings	-	-	-	6,985	-	-	-	-	
Transfers In	96,533	95,666	2,628	-	-	-	-	-	
Miscellaneous, operating	13,250	5,056	118,546	109,558	8,773	-	-	-	
Miscellaneous, other	-	-	-	-	42,938	-	-	-	
Total Increases	22,639,301	18,366,333	22,493,570	23,710,027	29,547,197	27,960,214	31,367,711	31,135,528	
(Decreases)									
Personal Services	5,024,010	5,555,802	6,191,844	7,038,034	8,804,442	8,383,253	9,135,264	9,408,437	
Operations	14,629,948	17,875,918	16,812,839	17,873,219	26,755,886	20,441,938	21,811,665	21,660,277	
Transfers Out	-	-	61,816	-	44,430	-	-	-	
Miscellaneous, operating	68,912	265,284	135,657	242,127	189,107	-	-	-	
Miscellaneous, other	962,700	221,359	164,792	148,404	168,077	-	-	-	
Total Decreases	20,685,570	23,918,363	23,366,948	25,301,784	35,961,942	28,825,191	30,946,929	31,068,714	
Adjustments to Beginning Retained Earnings	(12,995)	-	(1,057,342)	1,295,834	(358,472)	8,323,813	-	-	
Ending Retained Earnings	8,633,883	3,081,853	1,151,133	855,210	(5,918,008)	1,540,828	1,961,610	2,028,424	
Total Contributed Capital	1,752,942	1,670,548	1,592,495	1,592,495	1,592,495	1,592,495	1,592,495	1,592,495	
Total Fund Equity	10,386,825	4,752,401	2,743,628	2,447,705	(4,325,513)	3,133,323	3,554,105	3,620,919	
Unreserved Fund Balance									
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	3,287,145	3,949,501	3,856,723	4,192,230	5,958,239	4,804,199	5,157,822	5,178,119	
Fee/Rate Information for Legislative Action:									
Requested Rates for Internal Service Funds						-----Estimated-----			
xxxx						Ability to charge various rates in order to maintain 60-day working capital, except that the desktop services rate may not exceed \$73.50 per connection per month or the amount that was budgeted in an agency budget, whichever is more.			
xxxx						Adjustment to Beginning Retained Earnings in FY01 of \$8,323,813 is to correct depreciation posted in error in FY00. See FY01 Journal ISD4. 8/1/00.			

Rate Explanation

The executive is requesting that the legislature approve a rate for all service offerings based on maintaining no more than a 60-day working capital reserve in the ISD proprietary fund, except for the data network rate. The executive requests that the data network rate should not be more than the greater of \$73.50 per connected terminal per month or the amount that was budgeted in an agency budget.

**LFD
ISSUE**SABHRS Allocation

The 1999 legislature approved a rate for charges for services of SABHRS based upon the amount of costs allocated to agencies to support the operation of the system. Because SABHRS is a system that impacts all agencies and is required to be used to record state accounting information, the legislature may wish to approve a rate based upon the amount of SABHRS costs allocated to agencies. Recommended rates based upon an allocation of SABHRS costs are \$4,168,460 in fiscal 2002 and \$4,211,734 in fiscal 2003.

SABHRS Allocation Methodology

During the 2001 biennium, SABHRS support fees were allocated to agencies based on a combination of transaction volume and FTE. Transaction activity was given a weight of 60 percent and a weight of 40 percent was given to the ratio of agency FTE counts. The allocation of SABHRS support fees included in the Executive Budget for the 2003 biennium is based entirely on agency FTE counts. Table 7A shows that this change in allocation methodology has significantly changed the distribution among agencies of SABHRS costs, as compared to the base year distribution of costs. With an allocation based only on FTE, agencies such as the Department of Transportation, Department of Public Health and Human Services, Department of Justice, and Department of Corrections would receive large dollar amount increases as well as percentage increases that are well above the statewide average increase. Other agencies such as the Department of Administration, Secretary of State, and Department of Revenue would see dollar amount reductions and allocation changes below the statewide average increase. Because of this change in methodology, the legislature may wish to consider the allocation methodology.

Table 7A
SABHRS Operating Costs

SARNO Operating Costs				Changes from Base		Budget Allocation	
	Actual	Budget Allocation		Amount		Multiples of Base	
Agency	Fiscal 2000	Fiscal 2002	Fiscal 2003	Fiscal 2002	Fiscal 2003	Fiscal 2002	Fiscal 2003
Legislative Branch	\$14,215	\$38,399	\$38,843	\$24,184	\$24,628	2.70	2.73
Consumer Counsel	687	1,567	1,585	880	898	2.28	2.31
Judiciary	13,338	32,240	32,613	18,902	19,275	2.42	2.45
Governor's Office	6,303	16,198	16,385	9,895	10,082	2.57	2.60
Secretary of State	18,324	13,644	13,802	(4,680)	(4,522)	0.74	0.75
Political Practices	720	1,558	1,576	838	856	2.16	2.19
State Auditor	8,671	20,911	21,153	12,240	12,482	2.41	2.44
OPI	40,916	43,785	44,291	2,869	3,375	1.07	1.08
Crime Control	5,286	6,542	6,617	1,256	1,331	1.24	1.25
Justice	94,924	233,361	236,061	138,437	141,137	2.46	2.49
PSC	4,046	12,304	12,447	8,258	8,401	3.04	3.08
Bd of Public Ed	831	1,246	1,260	415	429	1.50	1.52
Comm. of Higher Ed	16,573	30,122	30,471	13,549	13,898	1.82	1.84
University System	79,814	190,000	190,000	110,186	110,186	2.38	2.38
School for the Deaf and Blind	9,663	25,443	25,738	15,781	16,075	2.63	2.66
Arts Council	3,116	2,181	2,206	(935)	(910)	0.70	0.71
State Library	7,331	13,706	13,865	6,375	6,534	1.87	1.89
Historical Society	7,543	22,615	22,877	15,072	15,334	3.00	3.03
FWP	176,029	198,697	200,996	22,668	24,967	1.13	1.14
DEQ	84,207	128,502	129,987	44,295	45,780	1.53	1.54
Transportation	237,157	675,880	683,700	438,723	446,543	2.85	2.88
Livestock	19,009	42,894	43,390	23,885	24,381	2.26	2.28
DNRC	104,005	157,813	159,640	53,808	55,635	1.52	1.53
Revenue	210,336	206,139	208,524	(4,197)	(1,812)	0.98	0.99
Administration	576,130	331,078	332,596	(245,052)	(243,534)	0.57	0.58
Appellate Defender	458	935	945	477	487	2.04	2.06
State Fund	97,326	73,125	73,971	(24,201)	(23,355)	0.75	0.76
Agriculture	19,907	34,848	35,251	14,941	15,344	1.75	1.77
Corrections	121,189	347,598	351,620	226,409	230,431	2.87	2.90
Commerce	69,742	104,515	105,723	34,773	35,981	1.50	1.52
Labor and Industry	230,549	243,155	245,528	12,606	14,979	1.05	1.06
Military Affairs	23,445	47,205	47,751	23,760	24,306	2.01	2.04
DPHHS	476,485	870,254	880,322	393,769	403,837	1.83	1.85
General fund appropriation	476,314	-	-	(476,314)	(476,314)		
	\$3,254,588	\$4,168,460	\$4,211,734			1.28	1.29

**LFD ISSUE
CONTINUED**

As such, the legislature may wish to ask the executive to provide the rationale for changing the allocation basis and if a determination was made that showed allocating SABHRS costs to agencies based entirely on FTE provides the best measure of the relative degree of benefit gained from using SABHRS and therefore results in an equitable distribution of SABHRS costs. Allocating indirect costs, such as SABHRS costs, using a base that provides the best measure of the relative benefit is important because it is a requirement contained in federal cost reimbursement guidelines. According to Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments."

The allocation methodology would provide the funding illustrated in Table 7B. Table 7B assumes that agencies would fund SABHRS payments for the 2003 biennium with the same funding sources used in fiscal 2000. If this assumption holds true, general fund and proprietary fund support for SABHRS costs would be lower as a percent of total costs while state special revenue, federal special revenue, and university funds would provide higher percentages of support for SABHRS total costs. Because SABHRS costs increase over the base, all funds except capital project and proprietary funds would see increased payments to support SABHRS.

Table 7B
SABHRS Operating Cost Funding

	Fiscal 2000 Expended	Percent of Total	Fiscal 2002 Projected ²	Percent of Total	Fiscal 2003 Projected ²	Percent of Total
General Fund ¹	\$1,227,292	37.71%	\$1,351,748	32.43%	\$1,367,242	32.46%
State Special Revenue	668,818	20.55%	1,335,927	32.05%	1,351,220	32.08%
Federal Special Revenue	459,294	14.11%	691,677	16.59%	699,447	16.61%
Capital Project	4,494	0.14%	2,582	0.06%	2,594	0.06%
Proprietary	814,762	25.03%	596,327	14.31%	601,030	14.27%
Expendable Trust	114	0.00%	199	0.00%	201	0.00%
University	79,814	2.45%	190,000	4.56%	190,000	4.51%
Total Payments to SABHRS ¹	<u>\$3,254,588</u>		<u>\$4,168,460</u>		<u>\$4,211,734</u>	

¹ Fiscal 2000 general fund includes \$476,314 directly appropriated to SABHRS for SABHRS licensing costs and not allocated to agencies. In the 2003 biennium, the licensing costs are included in the agency allocations for fiscal years 2002 and 2003.

² For fiscal years 2002 and 2003 the projected amounts assume the same funding that appears in the fiscal year-end expenditure data on SABHRS. The general fund direct appropriation was excluded from the funding model used to determine fiscal years 2002 and 2003 projections. Agency allocations used to determine funding projections are from fixed cost allocations contained with the Executive Budget instructions for the 2003 biennium.

DP 1 - Oracle Enterprise License Agreement (ELA) - This request would fund an increase of \$720,000 per year for an Oracle Enterprise Licensing Agreement (ELA).

Rate Impact: This request would increase the data network rate by \$5.63 per connected terminal per month.

**LFD
COMMENT**

Oracle database software is the standard operating language for state databases. The ELA is a five-year software license and service agreement for Oracle database software. The latest five-year ELA began in fiscal 2000 with the increase funded by contributions from state agencies. The increase is not reflected in the base for the division, but is in the bases for the contributing agencies. Because of this, the base for the current Oracle ELA is only \$200,000. This request would result in an annual license cost that is 3.6 times the current base for the license cost.

DP2 - Wide Area Network and Internet Growth - This request would fund: 1) the addition of a second Internet connection to SummitNet; 2) wide area SummitNet data circuit upgrades; and 3) software and hardware to expand and manage deployment of client server applications. The second Internet connection to SummitNet would provide redundancy, load balancing, and security on the SummitNet for a growing number of local governments, libraries, and schools using the Internet. Data circuit upgrades would provide higher speed connections for remote offices and additional bandwidth for the increasing network traffic caused by increased use of the Internet and growth in e-government activities. Client server software and hardware would allow the division to better manage the deployment of client server applications and would allow client server applications to better use the available network bandwidth.

Rate Impact: This request would increase the data network rate by \$1.92 per connected terminal per month in fiscal 2002 and by \$4.20 per connected terminal per month in fiscal 2003.

**LFD
COMMENT**

According to the definition in the SummitNet use policy, "SummitNet (State and Universities of Montana Multi-Protocol Network) is the state's telecommunications nucleus network or backbone connecting agency, university, K-12, library, and local government networks. SummitNet's telecommunications users are elected officials, state and local government employees, educators, students, researchers, authorized contractors, and non-profit organizations. Through SummitNet, these authorized users can access a wide range of national and international information. SummitNet provides connectivity to the Internet, the world's largest network of individuals, governments, organizations, universities, schools, and companies."

DP 4 - PeopleSoft Maintenance - This request would fund the SABHRS operating system vendor maintenance costs with proprietary funding. Included in this request is an increase of roughly \$77,000 in fiscal 2002 and roughly \$86,000 in fiscal 2003 from the amount expended and the amount the legislature authorized for the base year. During the base year, these costs were funded with general fund. A separate decision package (present law DP3) reduces general fund for SABHRS operating system vendor maintenance costs.

Rate Impact: The executive recommends five adjustments related to SABHRS. Please refer to Table 7C following present law adjustment DP 8 for a summary of the impacts of all SABHRS adjustments.

DP 5 - SABHRS Finance and HRMS Upgrade Support - This request would fund the addition of 7.0 FTE and associated operating costs to support ongoing upgrades of the PeopleSoft software. The department estimates that the SABHRS production databases should be upgraded every two to three years to enable the state to take advantage of improvements in software functionality and to stay on a version supported by PeopleSoft. The FTE added would be 1.0 FTE grade 16, programmer; 1.0 FTE grade 16, business analyst; 1.0 FTE grade 16, database administrator; and 4.0 FTE grade 14, programmers.

Rate Impact: The executive recommends five adjustments related to SABHRS. Please refer to Table 7C following present law adjustment DP 8 for a summary of the impacts of all SABHRS adjustments.

DP 6 - SABHRS Finance & HRMS Production Support - This request would fund the addition of 2.0 FTE grade 15, business analysts and associated operating costs to provide production support services for SABHRS. One position would provide dedicated functional support for the general ledger module of the SABHRS financial system and the other position would provide dedicated functional support for the time and labor and human resources modules of the SABHRS human resources management system.

Rate Impact: The executive recommends five adjustments related to SABHRS. Please refer to Table 7C following present law adjustment DP 8 for a summary of the impacts of all SABHRS adjustments.

DP 7 - SABHRS Archival and Retrieval - This request would fund contracted services and computer software and hardware to develop and implement an archival plan for SABHRS databases. The solutions would address issues associated with database size and growth and would include tuning of the production databases, archiving data from the production databases, and developing and maintaining the archival environment.

Rate Impact: The executive recommends five adjustments related to SABHRS. Please refer to Table 7C following present law adjustment DP 8 for a summary of the impacts of all SABHRS adjustments

DP 8 - SABHRS Consultant Services - This request would fund contracted services for the SABHRS Support Bureau to contract with private information technology consultants as needed to obtain specific expertise for supporting SABHRS. Areas where SABHRS has obtained consulting assistance in the past have been: 1) mainframe programming; 2) business processing expertise; 3) Oracle database programming; and 4) Power Builder software programming support for the state budgeting system.

Rate Impact: The executive recommends five adjustments related to SABHRS. Please refer to Table 7C for a summary of the impacts of all SABHRS adjustments

LFD ISSUE The executive recommends five adjustments directly related to SABHRS and one adjustment that impacts SABHRS costs as a result of program reorganization. Table 7C summarizes all adjustments that increase SABHRS costs. The table shows that SABHRS costs increase by roughly \$1.3 million in each year. However, \$476,314 of the costs for PeopleSoft maintenance (DP 4) was expended in the fiscal 2000 with funding provided by general fund. The executive recommends that the general fund no longer support these costs and that all SABHRS costs be allocated to agencies. Table 7C shows costs adjustments that would be allocated to agencies for support of the system.

The total growth of SABHRS costs, after adjusting for the general fund payment for PeopleSoft maintenance, is 25.5 percent in fiscal 2002 and 23.3 percent in fiscal 2003 over SABHRS base expenses of roughly \$3.37 million.

Table 7C SABHRS Adjustments - Impact on Cost Allocations				
Adjustment	Fiscal 2002	Percent of Adjustments	Fiscal 2003	Percent of Adjustments
PeopleSoft Maintenance (DP 4) ¹	\$533,000	39.89%	\$555,000	43.97%
SABHRS Finance and HRMS Upgrade Support (DP 5)	380,361	28.47%	390,504	30.94%
SABHRS Finance & HRMS Production Support (DP 6)	112,246	8.40%	116,598	9.24%
SABHRS Archival and Retrieval (DP 7)	122,000	9.13%		0.00%
SABHRS Consultant Services (DP 8)	120,000	8.98%	140,000	11.09%
ISD Operational Adjustment (DP9)	<u>68,482</u>	5.13%	<u>60,119</u>	4.76%
Total SABHRS Adjustments	\$1,336,089		\$1,262,221	
PeopleSoft Maintenance - general fund in fiscal 2000	<u>(476,314)</u>		<u>(476,314)</u>	
Net SABHRS growth	<u>\$859,775</u>		<u>\$785,907</u>	

¹ In fiscal 2000, \$476,314 general fund was expended for PeopleSoft maintenance. DP 4 increases state spending for this cost by \$56,685 in fiscal 2002 and by \$78,686 in fiscal 2003. However, all costs in DP 4 are increases in the amount of SABHRS costs that are allocated to system users.

DP 9 - ISD Operational Adjustments - This request would adjust base expenditures for the Centralized Services Bureau to more closely match the division Cost Recovery System. The division underwent reorganization during fiscal 2000 and this adjustment would align 2003 biennium budget authority to more closely match the current division organization structure.

Rate Impact: This request would have no impact on rates ISD charges.

DP 2 - Electronic Government - This request would fund the addition of 1.0 FTE grade 16, information systems support specialist to provide oversight of the private vendor selected to develop and operate a state Internet electronic government portal and a statewide Intranet. The new position would: 1) audit vendor financial records; 2) verify application code placed in escrow; 3) maintain documentation and source code linkage for all applications; 4) stay current of all security processes (including passwords); 5) ensure contract compliance; 6) staff the governing board having oversight of the process; and 7) function as a point of contact for agencies regarding complaints about the vendor.

Rate Impact: This request would increase the data network rate by \$0.40 per connected terminal per month.

**LFD
COMMENT**

The executive has selected a vendor to develop and operate a self-funded Internet portal for Montana government to provide state services and information on the Internet. A request for proposal was issued during fiscal 2001 and the executive awarded a contract during November 2000. The private vendor selected to develop and operate the self-funded Internet portal would provide the upfront capital to implement key business processes on the portal. The vendor would recover this initial capital investment by charging a fee for providing certain information via the portal. The information that would be provided for a fee would continue to be available via the mediums in which it is currently provided. The fee would be charged for making the information more convenient to obtain than the currently used medium. Businesses have traditionally opted to pay the fee to receive the information via an Internet portal because of some economic benefit that exceeds the cost of the fee.

A state employee Intranet would allow for collaboration and sharing of data among state agencies and employees, such as timesheet entry, travel requests, travel reimbursements, supply orders, approval forms, and internal policies. The intranet would be a network that could only be accessed by authorized state employees.

Program Proposed Budget									
Budget Item	Base Budget Fiscal 2000	PL Adjustment Fiscal 2002	Base New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Adjustment Fiscal 2003	Base New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03	
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Operating Expenses	309,360	64,094	0	373,454	71,124	0	380,484	753,938	
Capital Outlay	0	0	0	0	0	0	0	0	
Debt Service	32,050	0	0	32,050	0	0	32,050	64,100	
Total Costs	\$341,410	\$64,094	\$0	\$405,504	\$71,124	\$0	\$412,534	\$818,038	
General Fund	341,410	64,094	0	405,504	71,124	0	412,534	818,038	
Capital Projects	0	0	0	0	0	0	0	0	
Total Funds	\$341,410	\$64,094	\$0	\$405,504	\$71,124	\$0	\$412,534	\$818,038	

Program Description

The General Services Program manages repair, maintenance, and construction services for state agencies in the Capitol complex and several state-owned buildings in the Helena area. Services the program provides include locksmith, painting, remodeling, architectural, and construction. The program operates a recycling program in the Helena area. The program supervises contracts for mechanical maintenance, pest control, janitorial services, elevator repair/maintenance, security, major maintenance, and garbage collections for state-owned buildings and provides assistance to all state agencies to procure leased space. The program also provides professional and technical facility management assistance to agencies that are located within a ten-mile radius of the Capitol complex.

Funding

Funding for the General Services Program is primarily from proprietary funds not included in the HB 2 budget, which the program receives by charging rent to state agencies. Agencies pay rent on office and warehouse space in state buildings located mostly on the Capitol complex.

The program is also funded by a general fund appropriation that is counted as a rent expense, although it is actually transferred as revenue into the general services proprietary account. The general fund support is to pay the costs of maintaining "common areas" such as office space for the Senate and House of Representatives, the Governor's mansion, public display areas in the Historical Society Museum, and some office space in the museum building. The common areas account for about 20 percent of the capitol complex office space. The program has received capitol land grant funds to pay maintenance costs on buildings in the capitol complex.

Present Law Adjustments									
-----Fiscal 2002-----					-----Fiscal 2003-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Fixed Costs				64,094					71,124
Total Statewide Present Law Adjustments				\$64,094					\$71,124
Grand Total All Present Law Adjustments				\$64,094					\$71,124

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

Proprietary Rates

Program Description

General Services Program (Fund 06528)

The General Services Program manages repair, maintenance, and construction services for state agencies in the Capitol complex and several state-owned buildings in the Helena area. General services also manages a recycle program in the Helena area for office waste paper products and provides professional and technical facility management assistance to agencies that are located within a ten-mile radius of the Capitol complex.

Revenues and Expenses

The program is forecasting revenues of \$5.8 million in fiscal 2002 and \$5.9 million in fiscal 2003. These are increases of 13 percent and 15 percent over base year revenues. The program forecasts expenses of \$5.8 million in fiscal years 2002 and 2003. These are increases of 6 percent and 7 percent over the base year. Increases are directly related to the addition of 2.5 FTE and inflationary growth in contracted services and utility costs.

The program states that it tries to maintain a working capital reserve of between 60 and 65 days in the rent and maintenance account to accommodate its billing cycle and to build the reserve for heavy contract payments that occur during the spring and summer months. The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund numbers 06528 and 06541 shows combined historical and projected revenues, expenses, fund equity, and retained earnings for the rent and maintenance internal service fund managed by the program and the grounds maintenance internal service fund managed by the Department of Fish, Wildlife & Parks (FWP). A discussion of the FWP grounds maintenance fund is contained in the FWP section of this report.

Report on Internal Service & Enterprise Funds, 2003 Biennium								
Fund Number 06528 / 06541		Fund Name Rent And Maintenance / Grounds Maintenance	Agency Number 6101	Agency Name Department of Administration	Program Name			
Fund Balance Information								
	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03
Beginning Retained Earnings	570,076	1,193,501	939,754	985,457	856,866	471,636	263,477	300,080
Increases								
Fee Revenue	4,416,982	4,559,982	4,793,200	5,051,207	5,455,290	5,597,097	6,133,074	6,235,764
Investment Earnings	-	-	-	156	-	-	-	-
Transfers In	53,465	21,860	58,800	58,801	44,430	-	-	-
Miscellaneous, operating	4,182	25	-	832	1,131	-	-	-
Miscellaneous, other	-	-	-	-	-	-	-	-
Total Increases	4,474,629	4,581,867	4,852,000	5,110,996	5,500,851	5,597,097	6,133,074	6,235,764
(Decreases)								
Personal Services	776,878	801,358	841,431	906,244	960,708	952,360	1,069,235	1,074,521
Operations	3,071,657	3,778,184	3,586,529	4,242,635	4,479,736	4,852,896	5,027,236	5,083,433
Transfers Out	-	102,088	322,487	92,000	328,047	-	-	-
Miscellaneous, operating	-	50,000	-	-	-	-	-	-
Miscellaneous, other	2,669	1,378	92	33	14,361	-	-	-
Total Decreases	3,851,204	4,733,008	4,750,539	5,240,912	5,782,852	5,805,256	6,096,471	6,157,954
Adjustments to Beginning Retained Earnings	-	(102,606)	(55,758)	1,325	(103,229)	-	-	-
Ending Retained Earnings	1,193,501	939,754	985,457	856,866	471,636	263,477	300,080	377,890
Total Contributed Capital	109,588	5,837	4,587	4,587	4,587	4,587	4,587	4,587
Total Fund Equity	1,303,089	945,591	990,044	861,453	476,223	268,064	304,667	382,477
Unreserved Fund Balance								
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)								
	641,423	771,590	737,993	858,147	906,741	967,543	1,016,079	1,026,326
Fee/Rate Information for Legislative Action:								
						-----Estimated-----		Authority
Requested Rates for Internal Service Funds	06528	Rent & Maint.	\$4.616/psf	\$4.789/psf	\$5.13/psf	\$5.37/psf	\$5.90/psf	2-17-101
	06541	Grounds Maint.	0.3446	0.3446	0.3446	0.3446	0.3696	2-17-111
PSF= Annual per square foot cost								
								2-17-811

Rate Explanation

The program allocates rent costs to agencies occupying space in the buildings controlled by the Department of Administration. Rent is allocated on a per-square-foot basis. The rates are established to cover the cost of personal services, operating expenses (including major maintenance), and new and replacement equipment. The program charges for project work completed for agencies by in-house staff or contracts with an outside vendor on a cost recovery basis.

For the 2003 biennium, the executive requests the rates shown in Table 8A.

Table 8A					
Proposed Rent Rates					
Rate	Fiscal 2000	Fiscal 2002	Change	Fiscal 2003	Change
Office space per square foot	\$5.130	\$5.900	15.0%	\$6.017	17.3%
Warehouse space per square foot	2.120	2.120	0.0%	2.120	0.0%

Significant Present Law

DP 4 - Add'l 0.25 FTE Janitorial Oversight & Recycling - This request would fund the addition of 0.25 FTE grade 12, program specialist to bring a janitorial oversight and recycling coordinator to 1.0 FTE. The additional staffing would be used to enhance the contract oversight of Capitol complex janitorial contractors and to address workload increases associated with the office-waste recycling program.

Rate Impact: This request would have a minimal impact on the rates proposed for the 2003 biennium.

DP 5 - Other Services - This request would fund cost increases in the following areas: 1) janitorial contracts; 2) caretaker services; 3) elevator maintenance; 4) mechanical service; and 5) security protection. Janitorial contract costs increased when the contract was re-bid. The Capitol building was vacant during much of the base year, so base year janitorial expenditures were lower than the full contract costs for the 2003 biennium.

Caretaker services, elevator maintenance, mechanical maintenance, and pest control costs have also increased from the base year expenditures. Prevailing wage rate increases, the addition of air conditioning in the Capitol building, aging elevator equipment, and more stringent contract specifications are factors the executive has used to justify the increases.

Rate Impact: This request would increase the office space rent rate by roughly \$0.38 per square foot per month in fiscal 2002 and by roughly \$0.51 per square foot per month in fiscal 2003.

DP 6 - Supplies & Communications - This request would fund: 1) the acquisition of tools and supplies; 2) increased telephone equipment charges; and 3) cellular telephones for on-call staff. Tools and supplies that would be acquired include: 1) meeting tables and chairs as an inventory item for tenant agency use; 2) a portable stage platform for use in the Capitol rotunda during speeches and other ceremonies; and 3) a power washer for cleaning equipment and for maintenance preparation. Staff on call around-the-clock would use two additional cellular telephones. Telephone equipment charges have increased with the addition of modems to operate the keyless access systems at Capitol complex buildings.

Rate Impact: This request would have a minimal impact on the rates proposed for the 2003 biennium.

DP 7 - Rent, Repairs & Utilities - This request is for net reductions of the base due to the following factors: 1) vehicle rental increases; 2) building rent reductions; 3) energy cost increases; and 4) trash removal contract increases.

The State Motor Pool lease charge has increased for a six-passenger car that is used by the maintenance staff and administrative support staff to transport employees to meetings and to perform maintenance work around the Helena area. Consumer Price Index clauses are increasing the lease costs of some facilities while the completion of the Capitol renovation has reduced the need to rent space off the Capitol complex. The net result is a reduction of building rent costs.

While the Capitol was vacant during the Capitol renovation, base expenditures for electrical and natural gas energy costs were below those reflective of normal occupation levels. The addition of controlled environment heating and air conditioning in the Capitol has increased energy costs above previous typical years as has inflation of energy costs. The result is an increase for electrical and natural gas energy costs.

A new trash removal contract went into effect after the close of the base year. The new contract increased 18 percent over the contract in force during the base year. This request would include an increase to fund payment of the contract charges.

Rate Impact: This request would increase the office space rent rate by roughly \$0.24 per square foot per month in fiscal 2002 and by roughly \$0.23 per square foot per month in fiscal 2003.

DP 8 - Paint, Other Expenses, & Equipment - This request would fund: 1) the purchase of bulk paint for the Capitol complex; 2) an increase in dues to the National Association of State Facilities Administrators; 3) a projected increase in assessments levied by the City of Helena and Lewis and Clark County; 4) increases for indirect and administrative costs paid to proprietary funded programs of the department for network support, accounting and budgeting support, payroll support, and legal services; and 5) the purchase of a man-lift for maintenance around the Capitol complex.

Rate Impact: This request would have a minimal impact on the rates proposed for the 2003 biennium.

New Proposals

DP 3 - Personal Services 2.5 FTE - This request would fund the addition of 2.5 FTE to provide: 1) professional and technical support on mechanical engineering issues; 2) assistance to agencies on facility security issues; and 3) assistance to the office waste recycling program.

Funding for a 1.0 FTE grade 15 administrative officer would be added as a facilities engineer to oversee compliance issues with mechanical service contracts and to provide on-going building system assessments and upgrade support. Funding for a 1.0 FTE grade 15 safety and security manager would be added to provide assistance to agencies in identifying and solving security issues and to develop a disaster and emergency preparedness program on the Capitol complex. Funding for a 0.5 FTE grade 6 laborer would be added to pick up recycling bins from state agencies and deliver them to the recycling plant.

Rate Impact: This request would increase the office space rent rate by roughly \$0.09 per square foot per month in fiscal 2002 and by roughly \$0.10 per square foot per month in fiscal 2003.

Proprietary Rates

Program Description

The Mail and Distribution Program provides qualified mailroom staff to operate a centralized mailing operation. Services provided by the program include: 1) mail pick-up and delivery in agency offices; 2) metering of all out-going U.S. mail; 3) bar coding qualified mailings to qualify for postal rate savings; 4) delivery of all inter-agency printed communications, also known as "Deadhead Mail"; 5) operation of a Postal Contract Station with locked mail boxes; 6) providing the services of United Parcel Service (UPS) to agencies; and 7) providing express mail service.

Revenues and Expenses

The program anticipates revenues of \$3.6 million in fiscal years 2002 and 2003. These amounts are decreases of 2 percent from base year revenue. The program anticipates expenses of \$3.6 million in fiscal years 2002 and 2003. These amounts are increases of approximately 7 percent and 6 percent, respectively, over base year expenses. The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund number 06523 shows historical and projected revenues, expenses, fund equity, and retained earnings for the mail and messenger internal service fund.

Report on Internal Service & Enterprise Funds, 2003 Biennium								
Fund Number 06523		Fund Name Mail & Messenger		Agency Number 6101		Agency Name Department of Administration		Program Name
Fund Balance Information								
	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03
Beginning Retained Earnings	196,978	320,879	371,255	340,732	508,181	792,353	569,353	552,304
Increases								
Fee Revenue	3,576,308	3,357,538	3,234,671	3,506,098	3,687,701	3,253,764	3,619,227	3,616,809
Investment Earnings	3	1	-	-	-	-	-	-
Transfers In	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	-	606	779	-	-	-
Miscellaneous, other	-	578	-	-	-	-	-	-
Total Increases	3,576,311	3,358,117	3,234,671	3,506,704	3,688,480	3,253,764	3,619,227	3,616,809
(Decreases)								
Personal Services	308,037	307,556	365,254	374,479	402,488	402,570	418,214	420,173
Operations	3,134,504	2,995,394	2,860,360	2,942,307	2,963,902	3,017,438	3,147,593	3,142,196
Transfers Out	-	-	-	-	-	56,756	70,469	52,244
Miscellaneous, operating	8,823	4,791	1,178	4,485	35,768	-	-	-
Miscellaneous, other	1,046	-	-	17,984	500	-	-	-
Total Decreases	3,452,410	3,307,741	3,226,792	3,339,255	3,402,658	3,476,764	3,636,276	3,614,613
Adjustments to Beginning Retained Earnings	-	-	(38,402)	-	(1,650)	-	-	-
Ending Retained Earnings	320,879	371,255	340,732	508,181	792,353	569,353	552,304	554,500
Total Contributed Capital	-	-	-	-	-	-	-	-
Total Fund Equity	320,879	371,255	340,732	508,181	792,353	569,353	552,304	554,500
Unreserved Fund Balance								
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)								
	575,227	551,290	537,799	553,545	567,026	570,001	594,301	593,728
-----Estimated-----								
Requested Rates for Internal Service Funds			The Central Mail Program requests a 60-day working capital reserve, except for the rate for interagency mail. The legislature defined the rate for interagency mail to mean the total amount allocated for interagency mail charges in the fixed cost portion of agency budgets.					
Deadhead - allocated in Fixed Portion of Agency Budgets			\$157,157	\$157,157	\$163,704	\$163,704	\$171,655	\$171,655

Rate Explanation

The Central Mail Program is requesting that the legislature approve a rate based on a 60-day working capital reserve, except for the rate for interagency mail. For interagency mail, the executive is requesting a rate defined as the total amount allocated to agencies. This allocation is included in agency budget requests for the 2003 biennium. The total amount the executive requests to be allocated to agencies for interagency mail is \$171,655 for each year of the 2003 biennium.

**LFD
ISSUE**

The program has requested a 60-day working capital rate, justifying the request with the rationale that a 60-day working capital rate provides flexibility to adjust rates due to demand for services. The program has stated that the flexibility gained from a 60-day working capital rate would allow the program to lower or increase the rates charged to agencies to respond to business volume the program experiences without the need to inflate their rates to meet unanticipated increases in the cost of goods needed to provide the service.

The issue, "Legislative Approval of Fees and Charges," contained in the agency section of this report for the department shows that financial laws for fees and charges of an internal service fund do not restrict the flexibility of the program to adjust fees and charges as long as they are below the maximum levels approved by the legislature and they are commensurate with costs. As such, the legislature may wish to request that the program provide a schedule of specific fees and charges for legislative approval as the maximum rates for the 2003 biennium. When providing the rate schedule, the executive should identify how the rates are impacted by each budget adjustment.

DP 1 - Other Fixed Costs

This request would fund increases in department indirect/administrative costs for services received from the proprietary funded centralized service functions of the agency.

DP 2 - Request Add'l .33 FTE For Programmer - This request would fund the addition of 0.33 FTE grade 15, programmer/analyst to provide dedicated programming and computer support. The executive is requesting funding at the market salary level and has identified the difficulty to recruit and retain information technology personnel as the basis for the request.

**LFD
ISSUE**

The program requests funding to add FTE that would provide the same function as existing FTE of a centralized service unit of the department. This issue has been raised earlier for a related decision package. Please refer to the LFD issue following present law DP 9 for the Publications and Printing Program.

DP 3 - Installment Purchase of Mailing Equipment - This request would remove funding for the installment purchase of equipment that was originally purchased in fiscal 1999 via an installment purchase program. The final payment is scheduled to occur during 2003 biennium so the budget authority can be reduced accordingly.

DP 4 - Overtime & US Postal Service Rate Increase - This request would fund overtime and postage rate increases. Overtime, at \$6,000 per year, is requested at a level just below the base year actual expenditure and would cover rush mailings and increased mailings during the fiscal-year-end period. The U.S. Postal Service is expected to raise postage rates by an average 6 percent. This request would fund the increased postal rates that are expected to be in effect beginning in fiscal 2002.

Program Proposed Budget									
Budget Item	Base Budget Fiscal 2000	PL Adjustment Fiscal 2002	Base New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Adjustment Fiscal 2003	Base New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03	
FTE	22.50	0.00	0.00	22.50	0.00	0.00	22.50	22.50	
Personal Services	862,205	62,794	0	924,999	67,932	0	930,137	1,855,136	
Operating Expenses	258,516	14,057	0	272,573	(5,364)	0	253,152	525,725	
Total Costs	\$1,120,721	\$76,851	\$0	\$1,197,572	\$62,568	\$0	\$1,183,289	\$2,380,861	
General Fund	1,116,125	52,847	0	1,168,972	37,764	0	1,153,889	2,322,861	
State/Other Special	4,596	24,004	0	28,600	24,804	0	29,400	58,000	
Total Funds	\$1,120,721	\$76,851	\$0	\$1,197,572	\$62,568	\$0	\$1,183,289	\$2,380,861	

Program Description

The State Personnel Division provides state agencies with a comprehensive program of personnel administration that includes: 1) training; 2) position classification and pay; 3) collective bargaining and labor relations; and 4) equal employment and affirmative action administration. The division publishes state rules, standards, and policies relating to recruitment, selection, discipline, grievance, performance appraisal, leave, and other personnel matters. The division administers benefits plans that include: 1) health, life, dental, and vision insurance; 2) flexible spending accounts; 3) deferred compensation; 4) a sick leave fund; and 5) employee incentive awards and health promotion. The division also prepares, maintains, and distributes payroll for all state employees.

Funding

Funding for general personnel administration functions is from the general fund. The Employee Benefits Bureau is funded from the investment earnings of the state employees benefits fund. The Employee Benefits Bureau also receives a minor general fund appropriation for administration of the employee incentive program and sick leave administration. The Professional Development Center is funded with proprietary fees charged to state agencies for training services. The State Payroll Unit is funded with proprietary fees charged to state agencies for payroll processing services.

Present Law Adjustments									
-----Fiscal 2002-----					-----Fiscal 2003-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				88,752					94,049
Vacancy Savings				(25,958)					(26,117)
Inflation/Deflation				552					993
Fixed Costs				1,762					2,643
Total Statewide Present Law Adjustments				\$65,108					\$71,568
DP 1 - Operating Cost Changes									
0.00	(12,261)	24,004	0	11,743	0.00	(33,804)	24,804	0	(9,000)
Total Other Present Law Adjustments									
0.00	(\$12,261)	\$24,004	\$0	\$11,743	0.00	(\$33,804)	\$24,804	\$0	(\$9,000)
Grand Total All Present Law Adjustments				\$76,851					\$62,568

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Operating Cost Changes - This request would fund increases associated with: 1) costs to support a daycare center in Helena; 2) additional travel costs to attend recruitment fairs at state and tribal colleges and universities; and 3) increases in department indirect/administrative costs for services received from the proprietary funded centralized service functions of the agency.

This request would fund additional authority for building lease payments and general maintenance of the facility used as the daycare center in Helena. In addition to lease and maintenance costs, the request would include costs to maintain the building in compliance with regulations specific to daycare operations.

**LFD
ISSUE**1999 Legislative Action

The narrative in the Legislative Fiscal Report 2001 Biennium included funding in fiscal 2001 for startup costs for the daycare center identified in this request (new proposal DP1, Daycare Center Startup Costs). The narrative, which is legislative intent, states that the center will be run by a private concern and operating costs funded with fees charged to parents using the center. The \$11,000 state special revenue authority the 1999 legislature approved for fiscal 2001 was to pay part of the startup costs for the daycare center with funds received by contributions from other state agencies. Language that accompanied the appropriation states that the "department may collect up to \$11,000 from agencies based on the number of Helena FTE for the purpose of establishing and supporting the daycare center". To date, the department has collected \$35,800 from agencies to support the operation of the daycare. This amount is \$24,800 more than allowed by the language contained in HB 2.

Conflicting Language

The language in HB 2 conflicts with the narrative for the appropriation in that the narrative states the use is for startup costs and the center is to be run by a private concern and funded with fees paid by those using the center. On the other hand, the language that accompanies the appropriation states that state agencies may provide funding to support the center. The request for state support of the daycare is more than twice the appropriation made by the 1999 legislature and expands the state role from startup costs to subsidizing operating costs of the center run by a private concern.

A Benefit for Some

By providing state support for a portion of the operating costs a benefit is being provided to state employees that use the daycare center that is not equally afforded to other state employees who do not need, do not choose to use, or do not have the daycare available for their use.

Use and Funding

As a point of reference, the daycare has a capacity of 100 children. As of November 1, 2000, the daycare center had an enrollment of 44 children and served 24 state employee households. The \$35,800 that has been collected and deposited in a state special revenue fund was provided by 25 agencies with contributions ranging from just under \$53 to \$9,000.

Legislative Consideration

The legislature may wish to consider if state funds should continue to be used to support the operating costs of the daycare and if so, it may wish to more clearly define the limits and uses of state support for the Helena daycare.

Proprietary Rates**Program Description**

The State Personnel Division manages three proprietary programs: 1) the Professional Development Center; 2) the Employee Benefits program, which includes the state's health insurance plan; and 3) the State Payroll Unit.

Professional Development Center (Fund 06525)**Program Description**

The Professional Development Center (PDC) provides a variety of training and facilitation services to state agencies on a fee reimbursement basis. About 1 percent of the program revenues come from the sale of guidebooks and other publications. The PDC is currently funded with proprietary funds generated through fees charged for training services. The program has a staff of 3.0 FTE and also funds a small portion of an accounting technician position in the division.

Revenues and Expenses

Historically, demand for services has been measured by the number of participants being served. This measure is variable and difficult to predict from quarter to quarter. Total participants served in recent fiscal years are as follows:

- ?? fiscal 1998 (2,898 participants);
- ?? fiscal 1999 (2,279 participants); and
- ?? fiscal 2000 (3,210 participants).

The program projects revenues of \$238,380 in fiscal 2002 and \$239,654 in fiscal 2003, which are increases of approximately 1.0 percent in fiscal 2002 and 1.5 percent in fiscal 2003 over base year revenues. The program projects expenses of \$235,022 in fiscal 2002 and \$235,577 in fiscal 2003, which are roughly equal to base year expenses. By the end of the biennium the program would have built up a fund balance of approximately \$7,400. Optimally, the PDC should have a 60-day operating reserve (about \$38,000). The program faced a severe revenue shortfall in fiscal 1999, just prior to the implementation of SABHRS, due to unusually low registrations. Agency demands for PDC trainings were down during this period when employees required extensive computer trainings, which are not offered by the PDC. The PDC increased its rates in the middle of fiscal 2000 to \$90 for a full day course and \$60 for a half-day course, in an effort to boost revenues. The program is concerned that another rate increase would discourage attendance rather than increase revenues.

The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund number 06525 shows historical and projected revenues, expenses, fund equity, and retained earnings for the professional development center internal service fund.

Report on Internal Service & Enterprise Funds, 2003 Biennium								
Fund Number	Fund Name	Agency Number	Agency Name	Program Name				
06525	Intergovernmental Training	6101	Department of Administration					
Fund Balance Information								
	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03
Beginning Retained Earnings	35,497	25,163	2,402	9,059	(11,506)	(11,181)	(35)	3,323
Increases								
Fee Revenue	188,389	188,475	203,399	176,422	235,806	231,732	238,380	239,654
Investment Earnings	-	-	-	-	-	-	-	-
Transfers In	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	-	140	272	-	-	-
Miscellaneous, other	-	-	-	-	-	-	-	-
Total Increases	188,389	188,475	203,399	176,562	236,078	231,732	238,380	239,654
(Decreases)								
Personal Services	125,155	133,289	93,547	133,169	140,511	138,633	140,258	140,956
Operations	70,875	77,947	95,566	63,958	95,258	81,953	94,764	94,621
Transfers Out	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	-	-	-	-	-	-
Miscellaneous, other	2,693	-	-	-	-	-	-	-
Total Decreases	198,723	211,236	189,113	197,127	235,769	220,586	235,022	235,577
Adjustments to Beginning Retained Earnings	-	-	(7,629)	-	16	-	-	-
Ending Retained Earnings	25,163	2,402	9,059	(11,506)	(11,181)	(35)	3,323	7,400
Total Contributed Capital	1,036	1,036	600	600	600	600	600	600
Total Fund Equity	26,199	3,438	9,659	(10,906)	(10,581)	565	3,923	8,000
Unreserved Fund Balance								
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	32,672	35,206	31,519	32,855	39,295	36,764	39,170	39,263
Fee/Rate Information for Legislative Action:								
Requested Rates for Internal Service Funds	\$40.00	\$40.00	\$44.17	\$45.43	\$50.91 per hour	\$52.84	\$113.00	\$113.00
						-----Estimated-----		

Rate Explanation

The Professional Development Center (PDC) is requesting that the legislature approve a rate of \$113 per hour for each year of the 2003 biennium.

LFD COMMENT

The legislature approved rates for the PDC of \$50.91 per hour for fiscal 2000 and \$52.84 per hour for fiscal 2001. The rates proposed by the PDC are increases of 122 percent per year above the base year rate approved by the legislature. Program staff has stated that the rate increase would not affect how much the PDC charges on a per student basis for a workshop. The program staff has stated that the change is due to the methodology of how the program measures billable hours, stating that the \$113 per hour rate represents only contact hours with customers; whereas, the previous methodology measured direct contact hours as well as preparation time.

Employee Benefits Program (Fund 06559)

Program Description

The Employee Benefits program provides a variety of insurance products for 30,000 state employees, former employees, and their dependents. Funding for the insurance comes from paid premiums. The state of Montana, as the employer, pays a state share contribution toward premium costs as part of the employees' benefits. Additional premiums are collected for dependent, retiree, and COBRA benefit coverage. The Employee Benefits program is charged with aggressively monitoring the health care market, providers, and regulatory agencies in order to maintain a high quality, cost effective, employee benefit plan that insulates state employees, retirees, and their families, from financial harm due to illness or injury. The program works with the Montana Association of Health Care Purchasers on the joint purchase of cost-effective managed care plans. The program currently has a staff of 9.64 FTE.

Revenues and Expenses

The program projects revenues of \$66.6 million in fiscal 2002 and \$76.0 million in fiscal 2003, which are increases of 11 percent and 27 percent over base year revenues. Expenses are projected to be \$71.6 million in fiscal 2002 and \$78.5 million in fiscal 2003, which are increases of 14 percent and 25 percent over base year expenses. The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund number 06559 shows historical and projected revenues, expenses, fund equity, and retained earnings for the group benefits claims internal service fund.

Report on Internal Service & Enterprise Funds, 2003 Biennium								
Fund Number		Fund Name		Agency Number		Agency Name		Program Name
06559		Group Benefits Claims A/C		6101		Department of Administration		

Fund Balance Information								
	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03
Beginning Retained Earnings	23,790,168	24,724,446	25,454,470	28,544,013	23,741,741	20,757,180	19,154,240	14,214,136
Increases								
Fee Revenue	(15,435)	13,853	13,713	(1,090)	-	-	-	-
Investment Earnings	2,222,921	3,250,220	3,353,204	2,041,764	1,164,883	1,133,000	825,150	648,700
Transfers In	-	-	-	-	-	-	-	-
Miscellaneous, operating	41,337,812	43,127,398	48,037,101	48,302,563	58,717,941	60,043,300	65,811,050	75,361,300
Miscellaneous, other	-	-	-	-	-	-	-	-
Total Increases	43,545,298	46,391,471	51,404,018	50,343,237	59,882,824	61,176,300	66,636,200	76,010,000
(Decreases)								
Personal Services	305,733	349,719	414,772	407,284	378,056	412,335	462,876	468,401
Operations	42,305,083	44,338,780	47,216,709	54,344,639	62,489,348	62,366,905	71,113,428	78,069,680
Transfers Out	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	972,955	770,834	393,586	-	-	-	-
Miscellaneous, other	204	508	40	-	-	-	-	-
Total Decreases	42,611,020	45,661,962	48,402,355	55,145,509	62,867,404	62,779,240	71,576,304	78,538,081
Adjustments to Beginning Retained Earnings	-	515	87,880	-	19	-	-	-
Ending Retained Earnings	24,724,446	25,454,470	28,544,013	23,741,741	20,757,180	19,154,240	14,214,136	11,686,055
Total Contributed Capital	-	-	-	-	-	-	-	-
Total Fund Equity	24,724,446	25,454,470	28,544,013	23,741,741	20,757,180	19,154,240	14,214,136	11,686,055
Unreserved Fund Balance								
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	7,101,803	7,610,242	8,067,053	9,190,918	10,477,901	10,463,207	11,929,384	13,089,680

Fee/Rate Information for Legislative Action:			-----Estimated-----		
Requested Rates for Internal Service Funds	xxxx	xxxx	The goal is to maintain adequate actuarial reserves. Rates for FY02 and FY03 have not been determined at this time.		

LFD COMMENT

Since the end of fiscal 1998, when the fund equity was at a high of \$28.5 million, the fund equity has steadily decreased and would end the 2003 biennium at nearly \$11.7 million. The fund equity decline is due primarily to the rising cost of medical, pharmaceutical, and dental claims, which account for 85 percent of fund expenses.

Rate Explanation

Table 23A shows historical and the proposed state contribution for employee insurance coverage. The proposed rates - the state contribution for employee insurance coverage - would add \$30 on January 1, 2002, and an additional \$41 on January 1, 2003, per month per employee.

The operating expenses incurred directly by the Employee Benefits program accounts for roughly \$5.30 of the monthly premium. Medical, pharmaceutical, and dental claims are the largest plan costs and make up over 85 percent of total plan costs.

Premium contributions are established by projecting plan costs and estimating the revenue necessary to maintain adequate actuarial reserves. Reserves are calculated as a percentage of claims and consist of two components; incurred but not reported (IBNR) reserves and claims fluctuation reserves. As a component of employee compensation, the state contribution is a subject of collective bargaining.

Table 23A State Contribution for Employee Insurance Coverage		
Year	Monthly Contribution	Percentage Change From Previous Year
1994	210	
1995	230	9.5%
1996	220	-4.3%
1997	225	2.3%
1998	245	8.9%
1999	270	10.2%
2000	285	5.6%
2001	295	3.5%
2002*	325	10.2%
2003*	366	12.6%

*Proposed in the Pay Plan Bill HB 13

**LFD
COMMENT**

The executive will request funding for the amounts the agencies will need to pay for the nearly \$9.5 million (\$3.4 million general fund) for state agencies, excluding the university system. increases state share of insurance contributions in HB 13, the pay plan bill. The university system would add \$5.0 million (\$2.7 million general fund).

DP 2 - Workload increases and additional services - This request would fund increases for: 1) increases in department indirect/administrative costs for services received from other proprietary funded centralized service functions of the agency; 2) a 5 percent annual increase in employee benefit consulting services; 3) contracted services for a project to negotiate discounts with medical providers; 4) a biennial audit of medical and prescription drug claims; and 5) an updated employee benefits booklet. This request would also fund the addition of 3.25 FTE to cover workload increases resulting from the conversion to SABHRS and increases in the number and variety of benefit options available to state employees and their dependents.

Staff increases included in this request include: 1.0 FTE grade 15, programmer/analyst to provide system analysis and programming services for the bureau; 1.0 FTE grade 9, pay/benefits technician to assist with increased benefit account reconciliation workloads and member services; 1.0 FTE grade 12, pay/benefits specialist to provide help desk services for the bureau; and 0.25 FTE grade 9, benefits technician to assist during the benefits annual change period.

Rate Impact: This request would increase the premiums for insured employees, retirees, and dependents by \$1.77 per insured person per year in fiscal 2002 and by \$1.34 per insured person per year in fiscal 2003.

DP 3 - Health Insurance/Benefit Cost Increases - This request would fund net health insurance and benefit cost increases due to: 1) increased third party administrator costs; 2) the institution of a focused managed care program; 3) changes in the prescription drug program (program savings); and 4) anticipated increases in plan participation.

A new contract with the third party administrator for medical and dental claims would result in an administering cost increase of 85 percent over the base cost. Anticipated increases in annual plan participation would increase the costs for: 1) administering medical and dental claims; 2) the employee assistance program; 3) the vision hardware program; 4) the long-term care program; 5) the life insurance program; and 6) the flexible spending benefit program. Changes in the prescription drug benefit plan are expected to produce savings of roughly \$1.1 million over the biennium. However, prescription drug usage is expected to increase 9 percent, which would produce partial offsetting increases for the prescription drug program from the savings produced by changes in the plan.

A focused managed care program would identify the 5 percent of the plan members who are most likely to generate 60 percent of the claims. The program would work more intensely with the identified members, their medical providers on prevention, disease management, and treatment to reduce claims.

Medical and dental claims costs are expected to increase by 8 percent, which would be partially offset by savings of roughly \$3.0 million that would result from plan changes.

Rate Impact: This request would increase the net premiums paid for health insurance by \$50 per month per employee in fiscal 2002 and by \$55 per month per employee in fiscal 2003. This premium is paid in two ways: 1) by the state as the employer contribution; and 2) by the employee as an out-of-pocket cost. The state share and the employee share is a subject of collective bargaining and the state share has not been determined at this time.

State Payroll Unit (Fund 06563)

Program Description

The State Payroll Unit of the Payroll and Benefits Operations Bureau processes, distributes, reports, and accounts for payroll, benefits, and associated withholding and deductions for 12,000 state employees in the executive, legislative, and judicial branches. The bureau is currently staffed with 5.5 FTE.

Revenues and Expenses

The unit is projecting revenues of \$358,604 in fiscal 2002 and \$367,908 in fiscal 2003, which are increases of 16 percent in fiscal 2002 and 19 percent in fiscal 2003. Expenses are projected to be \$369,127 in fiscal 2002 and \$325,964 in fiscal 2003, which are an increase of 3.5 percent in fiscal 2002 and a decrease of 8.6 percent in fiscal 2003 from the base year expenditures. The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund number 06563 shows historical and projected revenues, expenses, fund equity, and retained earnings for the state payroll unit internal service fund.

Report on Internal Service & Enterprise Funds, 2003 Biennium									
Fund Number	Fund Name	Agency Number	Agency Name	Program Name					
6563	Payroll Fund	6101	artment of Administration						

Fund Balance Information									
	FY96	FY97	FY98	FY99	FY00	Estimated FY01	Estimated FY02	Estimated FY03	
Beginning Retained Earnings	-	(45,940)	(73,552)	(87,490)	6,712	(40,922)	(63,009)	(73,532)	
Increases									
Fee Revenue	555,684	565,397	595,182	977,136	308,746	308,746	358,604	367,908	
Investment Earnings	-	-	-	-	-	-	-	-	
Transfers In	-	-	-	-	-	-	-	-	
Miscellaneous, operating	-	-	-	245	338	-	-	-	
Miscellaneous, other	-	-	-	-	-	-	-	-	
Total Increases	555,684	565,397	595,182	977,381	309,084	308,746	358,604	367,908	
(Decreases)									
Personal Services	191,382	177,045	203,294	211,953	219,232	209,663	203,595	204,878	
Operations	410,242	415,185	403,549	295,666	137,484	121,170	165,532	121,086	
Transfers Out	-	-	-	375,560	-	-	-	-	
Miscellaneous, operating	-	-	-	-	-	-	-	-	
Miscellaneous, other	-	779	1,218	-	-	-	-	-	
Total Decreases	601,624	593,009	608,061	883,179	356,716	330,833	369,127	325,964	
Adjustments to Beginning Retained Earnings	-	-	(1,059)	-	(2)	-	-	-	
Ending Retained Earnings	(45,940)	(73,552)	(87,490)	6,712	(40,922)	(63,009)	(73,532)	(31,588)	
Total Contributed Capital	107,484	107,484	103,315	103,315	103,315	103,315	103,315	103,315	
Total Fund Equity	61,544	33,932	15,825	110,027	62,393	40,306	29,783	71,727	
Unreserved Fund Balance									
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	100,271	98,705	101,141	84,603	59,453	55,139	61,521	54,327	

Fee/Rate Information for Legislative									
-----Estimated-----									
Requested Rates for Internal Service Funds	xxxx	xxxx	The goal is to maintain a 60-						

Rate Explanation

Costs for payroll staff and operations are funded by payroll fees, which are collected from each state agency. After a budget is established for the 2003 biennium, costs are allocated to state agencies based on the number of employees each agency pays. The unit bills agencies and collects payments at the beginning of each fiscal year. The estimate of the number of employees each agency pays is determined from actual employee numbers in fiscal years 1999 and 2000. The 1999 legislature allowed the payroll unit to charge fees that allow the program to maintain a 60-day working capital balance.

The executive requests that the legislature approve a rate to maintain no more than a 60-day working capital reserve for the 2003 biennium. The proposed payroll fees the unit anticipates charging for fiscal years 2002 and 2003 have increased over those charged in the 2001 biennium. This increase is primarily because the fees charged in fiscal years 2000 and 2001 were set below the actual cost requirements in order to use up excess cash reserves, which were carried over from the 1999 biennium.

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The executive has requested that the legislature not approve specific rates for payroll service fees. Instead, the executive has requested a rate that would allow the Payroll Unit to change rates to maintain a working capital reserve of 60-days. The program staff has stated that with the 60-day working capital reserve rate they could bill agencies for more fees than is indicated in the fee allocated to all agencies in the Executive Budget. The program has stated that a 60-day working capital reserve rate would give them the flexibility in case of unforeseen expenses and that they have never billed agencies for more than the published fee schedule.

The Executive Budget contains allocations totaling \$356,958 in fiscal 2002 and \$366,248 in fiscal 2003 for payroll service fees. This is the amount the agencies that pay the fee have in their budgets. Agencies have the flexibility to adjust the components of their operating plans between different expenditure accounts, but they do not generally have the flexibility to increase their overall budget amounts. This same flexibility is provided to the Payroll Unit. However, providing the flexibility for the Payroll Unit to increase their fees to agencies so the unit can maintain a 60-day working capital reserve would provide flexibility to the unit that: 1) the unit has stated has never been needed; and 2) is not afforded to those entities that pay the fees. As stated in the issue "Legislative Approval of Fees and Charges," contained in the agency section of this report for the department, a rate based on a 60-day working capital reserve does not provide any control by the legislature over the level of expenditures of the program.

The legislature may wish to request that the executive provide a schedule of fees and charges for the Payroll Unit that the legislature can approve as the maximum fees and charges the Payroll Unit can charge.

Proprietary Rates

Program Description

The Risk Management & Tort Defense Division (RMTD) insures state agencies against risk of loss for property, commercial vehicles, boilers, airports, aircraft, fidelity bonds, and fine arts. The state self-insures against property losses under \$150,000 (\$250,000 for the prison), and claims for general liability, errors and omissions, inland marine, auto liability, and foster care liability. The state also carries full coverage automobile insurance on certain state-owned vehicles and on all leased or loaned vehicles. The division also provides risk management and safety training, consultation services, claims administration, and legal defense to prevent or minimize the adverse effects of physical or financial loss.

The Department of Administration is authorized by Section 2-9-202, MCA, to accumulate a self-insurance fund to pay for self-insured losses, to purchase insurance, and to fund operations. The stated funding objective for the self-insurance portion of the program is to maintain insurance rates sufficient to sustain consecutive "three-year average" loss experiences of \$4.7 million over fiscal 2002 and fiscal 2003. This \$4.7 million dollar amount is based on average costs sustained. The state of Montana has tort damage caps of \$750,000 per claim or \$1,500,000 per occurrence. Because the state performs diverse and high-risk functions, three or four large catastrophic claims in any given year could drive the self-insurance fund balance to zero.

To set rates for the commercial insurance premium cost portion of the program, which is allocated to agency budgets as part of fixed costs, the program calculates the actual base year premiums paid to commercial carriers and adds on a percentage of increase. The program determines the amount of the percentage increase by talking to industry experts and brokers to get their opinions about how much commercial premiums will be in the upcoming biennium.

Revenues and Expenses

The program anticipates revenue of \$8.5 million in fiscal 2002 and \$9.1 million in fiscal 2003. These amounts are approximately 24 percent and 33 percent increases respectively over base year revenue. At that level of funding, the program will generate enough revenue to fund the average of losses sustained in the last three years. The program experienced a 71 percent increase in estimated tort claims liability in fiscal 2000 that significantly increased the base year operations. The program's actual base year operations expenditures were \$11.8 million. The program anticipates actual expenditures of \$12.2 million in fiscal 2002 and \$12.3 million in fiscal 2003, which are both increases of approximately 4 percent over base year expenditures, not including estimated tort claims liability. The program anticipates estimated tort claims liability to remain at this level for the 2003 biennium. The Report on Internal Service & Enterprise Funds, 2003 Biennium for fund number 06504 shows historical and projected revenues, expenses, fund equity, and retained earnings for the legal services internal service fund.

Report on Internal Service & Enterprise Funds, 2003 Biennium									
Fund Number		Fund Name		Agency Number		Agency Name		Program Name	
06532		Agency Insurance Internal Service		6101		Department of Administration		Risk Management & Tort Defense	
Fund Balance Information									
	FY96	FY97	FY98	FY99	FY00	Estimated	FY01	Estimated	Estimated
Beginning Retained Earnings	(13,181,911)	(8,003,264)	(5,522,134)	(5,487,945)	(9,633,862)	(23,767,529)		(24,709,472)	(28,456,069)
Increases									
Fee Revenue	1,105	1,733	-	1,593	6,533,045	6,561,082		8,056,480	8,657,660
Investment Earnings	501,677	749,649	852,507	615,001	264,533	235,586		268,389	271,437
Transfers In	88,454	-	15,839	126,446	11,759	154,663		154,663	154,663
Miscellaneous, operating	5,970,479	5,952,147	6,246,692	6,474,182	17,115	9,136		9,136	9,136
Miscellaneous, other	-	-	-	-	-	-		-	-
Total Increases	6,561,715	6,703,529	7,115,038	7,217,222	6,826,452	6,960,467		8,488,668	9,092,896
(Decreases)									
Personal Services	422,929	460,545	447,779	512,783	549,094	656,572		675,936	678,579
Operations	958,174	3,519,247	6,070,518	6,020,276	22,464,256	7,245,838		11,559,329	11,637,204
Transfers Out	-	-	257,782	239,018	316,299	-		-	-
Miscellaneous, operating	-	242,404	292,643	142,897	-	-		-	-
Miscellaneous, other	1,965	203	4,793	-	-	-		-	-
Total Decreases	1,383,068	4,222,399	7,073,515	6,914,974	23,329,649	7,902,410		12,235,265	12,315,783
Adjustments to Beginning Retained Earnings	-	-	(7,334)	(4,448,165)	2,369,530	-		-	-
Ending Retained Earnings	(8,003,264)	(5,522,134)	(5,487,945)	(9,633,862)	(23,767,529)	(24,709,472)		(28,456,069)	(31,678,956)
Total Contributed Capital	2,801	2,801	2,306	2,306	2,306	2,306		2,306	2,306
Total Fund Equity	(8,000,463)	(5,519,333)	(5,485,639)	(9,631,556)	(23,765,223)	(24,707,166)		(28,453,763)	(31,676,650)
Unreserved Fund Balance									
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	230,184	703,699	1,135,157	1,112,659	3,835,558	1,317,068		2,039,211	2,052,631
Fee/Rate Information for Legislative Action:									
Requested Rates for Internal Service Funds						-----Estimated-----		Authority	
General Liability	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	MCA		
	3,632,199	3,812,492	3,834,842	3,834,842	5,362,500	5,775,000	2-9-202		
Auto Liability	1,194,501	1,244,419	1,244,420	1,244,419	1,137,500	1,225,000	2-9-202		
Property	1,140,109	1,104,108	1,147,684	1,147,684	1,200,500	1,270,930	2-9-202		
Airport/Aircraft	134,014	133,514	122,108	122,108	116,567	128,222	2-9-202		
All Other Lines	145,870	158,227	202,742	212,029	239,413	258,508	2-9-202		
Total Fees Charged	6,246,692	6,452,760	6,551,796	6,561,082	8,056,480	8,657,660			
The rate objective is to maintain insurance rates sufficient to sustain losses in each year of the biennium equal to the average losses sustained in the last three years.									

Proprietary Rate Explanation

The goal of the program is to maintain insurance rates sufficient to sustain losses in each year of the biennium equal to the average losses sustained in the last three years. In the last three years, the state sustained an average loss of \$4.7 million per year. The program's goal is to generate enough premiums to sustain back-to-back losses of \$4.7 million per year. The program has not adjusted the \$4.7 million three-year average loss for inflation.

The Table 24A shows the rates the division is requesting. Each rate is shown as the total amount that would be allocated to agencies for a given insurance area.

Table 24A Risk Management and Tort Cost Allocations to Agencies					
Rate	Fiscal 2000	Fiscal 2002	Change	Fiscal 2003	Change
General Liability	\$3,834,842	\$5,362,500	39.8%	\$5,775,000	50.6%
Auto Liability	1,244,420	1,137,500	-8.6%	1,225,000	-1.6%
Property	1,147,684	1,200,500	4.6%	1,270,930	10.7%
Airport/Aircraft	122,108	116,567	-4.5%	128,222	5.0%
All Other Lines	<u>202,742</u>	<u>239,413</u>	18.1%	<u>258,508</u>	27.5%
Total Fees Charged	<u>\$6,551,796</u>	<u>\$8,056,480</u>		<u>\$8,657,660</u>	

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The proposed rates increase by 23 percent in fiscal 2002 and by 32 percent in fiscal 2003. The increases are driven primarily by estimates of claim growth, which are reflective of the worst-case loss estimates. Table 24B shows contribution each of the proposed adjustments would have on the overall rate increases. Table 24B shows that increases in estimated claims payments would account for nearly three-quarters of the rate growth. Another 21 to 23 percent of the growth can be attributed to the procurement of commercial insurance policies and costs to defend claims against the state.

Table 24B Impact of Adjustments on Insurance Rates					
	Fiscal 2000	Fiscal 2002	Percent of Total Change	Fiscal 2003	Percent of Total Change
Personal Services	\$542,710	\$675,936		\$678,579	
Operations	8,556,216	11,559,329		11,637,204	
Total Expenses	<u>\$9,098,926</u>	<u>\$12,235,265</u>		<u>\$12,315,783</u>	
Contracted Services (DP 2)		256,804	8.0%	256,804	7.8%
Other Fixed Costs (DP 3)		4,293	0.1%	4,563	0.1%
Insurance Procurement & Administration (DP 4)		425,474	13.3%	511,276	15.6%
Rent (DP 5)		27,342	0.9%	29,971	0.9%
Additional 3.00 FTE (DP 1)		99,800	3.1%	100,141	3.1%
Statewide Adjustments		30,544	1.0%	22,020	0.7%
Claims Increase		2,348,226	73.6%	2,348,226	71.7%
Total Increases		<u>\$3,192,483</u>		<u>\$3,273,001</u>	
Base, Excluding Claims	\$4,031,587	\$3,975,443		\$3,975,443	
Claims Payments	\$5,067,339	\$7,415,565		\$7,415,565	

DP 2 - Contracted Services - An increase in contracted services would fund increased costs for adjusting firms, attorneys, actuarial consulting firms, insurance brokers, and appraisal firms. The increases are due to: 1) projected increases in the hourly fees charged by consultants; and 2) anticipated increase in the amount of work being sent to the consultants to address workload issues.

DP 3 - Other Fixed Costs - This adjustment would fund increases in department indirect/administrative costs for services received from other proprietary funded centralized service functions of the agency.

DP 4 - Insurance Procurement & Administration - This adjustment would fund increases in insurance premiums paid to commercial property and casualty insurance companies. This increase is caused by: 1) higher volume of claims; 2) higher cost of claims; and 3) higher value of state assets.

DP 5 - Rent - Rent and utility costs the division will incur would increase as the result of being moved to the USF&G Building. The move occurred after the end of the base year, so the higher rental and utility costs are not reflected in the base.

DP 1 - Additional 3.0 FTEs - This request would fund the addition of 3.0 FTE to address workload increases anticipated because of: 1) the assumption by the Department of Transportation of maintenance responsibilities on paved secondary roads; and 2) an increasing trend in the number of property and casualty claims and lawsuits being made against the state. This request would fund the addition of 1.0 FTE grade 9 administrative support, 1.0 FTE grade 18 attorney specialist, and 1.0 FTE grade 13 position, that has yet to be classified, but would likely provide legal support for the division.

Program Proposed Budget									
Budget Item	Base Budget Fiscal 2000	PL Adjustment Fiscal 2002	Base New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Adjustment Fiscal 2003	Base New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03	
FTE	9.00	0.00	0.00	9.00	0.00	0.00	9.00	9.00	
Personal Services	195,328	98,277	0	293,605	100,093	0	295,421	589,026	
Operating Expenses	85,238	(5,191)	0	80,047	(4,793)	0	80,445	160,492	
Local Assistance	2,759	0	0	2,759	0	0	2,759	5,518	
Total Costs	\$283,325	\$93,086	\$0	\$376,411	\$95,300	\$0	\$378,625	\$755,036	
General Fund	283,325	93,086	0	376,411	95,300	0	378,625	755,036	
Total Funds	\$283,325	\$93,086	\$0	\$376,411	\$95,300	\$0	\$378,625	\$755,036	

Program Description

The State Tax Appeal Board provides a tax appeal system for all actions of the Department of Revenue. It hears appeals from decisions of the 56 county tax appeal boards and takes original jurisdiction in matters involving income taxes, corporate taxes, severance taxes, centrally assessed property and new industry property, gasoline and vehicle fuels taxes, and cabin site leases. The board travels throughout the state to hear appeals from decisions of the county tax appeal boards and to conduct informational meetings for the various county tax appeal boards. The State Tax Appeal Board directs the county tax appeal board secretaries, who are state employees, and pays their salaries and employee benefits from its personal services appropriation. The board also reviews and pays the expenses, including employee benefits, of those county tax appeal board secretaries who are county employees. In addition, the board pays the clerical-related expenses for all 56 county tax appeal boards, including supplies, postage, and copies. The board does not pay for office equipment.

Funding

The board is funded entirely by the general fund.

LFD ISSUE During fiscal 2000, the board had vacancies of 49.3 percent. One position, a grade 14 administrative officer was vacant the entire year and vacant as of November 17, 2000. The vacancy in this position plus vacancies of 92.1 percent in an aggregate 3.0 FTE position used to pay salaries and benefits for county tax appeal board secretaries were the cause for this high vacancy rate. As such, the Executive Budget for the board increases by 33.8 percent in fiscal 2002 and 33.6 percent in fiscal 2003. The large increase over base is due entirely to the statewide personal service adjustments that provide full funding for all 9.0 FTE of the board.

The legislature may wish to ask the board if position 61103705 that has been vacant for nearly 16 months is still needed. Also, the legislature may wish to ask the board if position 6119371 should be funded for 3.0 FTE or if a lower funding level would adequately staff the position.

Present Law Adjustments									
-----Fiscal 2002-----					-----Fiscal 2003-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				109,431					111,303
Vacancy Savings				(8,187)					(8,243)
Inflation/Deflation				0		(19)			
Fixed Costs				(272)		2			
						\$103,043			
Total Statewide Present Law Adjustments				\$100,953					
DP 1 - Miscellaneous Operating COSTS									
0.00	(7,867)	0	0	(7,867)	0.00	(7,743)	0	0	(7,743)
Total Other Present Law Adjustments									
0.00	(\$7,867)	\$0	\$0	(\$7,867)	0.00	(\$7,743)	\$0	\$0	(\$7,743)
Grand Total All Present Law Adjustments				\$93,086					\$95,300

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Miscellaneous Operating COSTS - The executive requests an overall reduction of board budget authority through offsetting adjustments of personal service and operating costs. The offsetting adjustments include increases for: 1) department indirect/administrative costs for services received from the proprietary funded centralized service functions of the agency; and 2) per diem at the base level for county tax appeal board members to attend meetings to hear appeals or meetings called by the state tax appeal board. The decreases are primarily due to removing: 1) base year expenditures for computer equipment that would not be needed during the 2003 biennium; and 2) removing a budget system generated adjustment to the base for health insurance for an aggregate position in which the incumbents are hired at less than 0.5 FTE and do not individually qualify for health insurance benefits.